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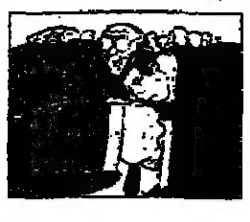

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Rocket scientists
Mothballed monsters on their way to space
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New premier in a hot seat
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WORLD NEWS

Kosovo faces winter of disaster, diplomats warn

Kosovo faces a humanitarian disaster if the fighting between ethnic Albanian separatists and Serb security forces in the Balkan province continues into winter, the leader of a diplomatic team warned yesterday. The UN High Commission for Refugees and neighbouring governments believe at least 90,000 people have been displaced by the conflict. **Editorial Comment, Page 11**

China in military business purge
Chinese president Jiang Zemin has ordered the military to close its extensive business empire as part of efforts to end smuggling, state media reported. The move lends credence to suspicions of People's Liberation Army involvement in smuggling and illegal trade.

Pakistan's N-system 'operational'
Pakistan's deterrent force, based on a 1,500km-range missile with a nuclear warhead, is "fully operational", according to the architect of the arms programme. **Page 5**

Verdict expect on Tehran mayor
Tehran mayor Gholamhossein Karbaschi was due to learn the verdict in his corruption trial today. Supporters say he was framed by Iran's conservative judiciary while critics allege he enriched himself and cronies. **Page 6**

UN in Algeria mission
A UN team is on a fact-finding mission to Algeria, where western estimates suggest more than 65,000 people have been killed since 1992, when the army denied election victory to the now banned Islamic Salvation Front. **Page 6**

No meeting of ideologies
Taiwan offered China its experience in building multi-party democracy, but president Lee Teng-hui rejected Beijing's proposed union under a Hong Kong-style model.

Hussein may have cancer
Jordan's King Hussein said US doctors who examined him suspect he has cancer. **Page 6**

Israel seeks US help
Israel asked Washington to help save peace moves with the Palestinians, admitting that negotiations remained stuck despite attempts to revive the talks. **Page 6**

Russians must pay up for pensions
Russians will have to pay an extra 2 per cent income tax from next month to help the government pay pensions on time, deputy prime minister Oleg Sysuyev said. They previously paid only 1 per cent to the State Pension Fund.

Poland details defence plans
Poland is to spend more than 8bn zlotys ($2.3bn) over the next five years on upgrading its forces to Nato standards. Poland, the Czech Republic and Hungary are due to join Nato next spring. **Page 2**

Strike hits S African airports
South Africa's three biggest airports were paralysed by a baggage and freight handlers' strike over outsourcing of jobs.

US astronaut dies
Alan Shepard, the first American to fly in space and one of only 12 Americans to walk on the moon, died in California aged 74. **Recycling rocketeers, Page 4**

Hopes deflated
Brandenburg refused to allow what was to be Germany's first balloon wedding, citing problems about "designating the basket of a hot-air balloon as an official state office".

BUSINESS NEWS

Air France told it need not pay back 'illegal' state aid

Air France will not have to repay FFr20bn ($3.3bn) of state aid in spite of a European Court ruling that the aid was illegal, the European Commission said. **Page 12**

Daimler-Benz said it would shortly confirm its entry to the "super luxury" car market, intensifying growing competition with Volkswagen after its German rival acquired Rolls-Royce Motor Cars. **Page 16**

Banco Central Hispano, the Spanish banking group, posted first-half net profits of Pta33bn ($218m), 32.1 per cent up on the same period last year. **Page 16**

Lukoil, the Russian energy company, criticised the government's "unreasonable and irresponsible" economic policies which it said threatened a social explosion. **Page 2**

General Motors and the United Auto Workers union sent lawyers to arbitration hearings to determine the legality of strikes at Michigan spare parts plants. **Page 4**

Japan's trade surplus rose in June by 27 per cent, year on year, the 15th successive monthly increase. **Page 5**

China's foreign exchange reserves fell last month despite a continued rise in the trade surplus, suggesting companies are holding on to hard currency earnings as a hedge against a possible devaluation. **Page 5**

PolyGram, the Dutch entertainment group for which Seagram of Canada has bid $10.4bn, reported a steep reduction in second-quarter net income. **Page 16**

Södra of Sweden, the world's largest producer of market pulp, and Metsä-Serla, the Finnish forestry group, have won an international tender to build a $960m wood pulp mill in Latvia. **Page 16**

Enterprise Oil of the UK is to close its representative office in Vietnam, reflecting declining foreign interest in future development prospects in Vietnam at current oil prices. **Page 6**

Philippine Airlines, Asia's oldest airline, said a wildcat strike by its largest union in defiance of a company warning that jobs must be cut could be a "fatal blow". **Page 13**

Deutsche Bank chairman Rolf Breuer said the UK and German stock markets could build on their recent alliance and extend the link to their respective derivatives exchanges. **Page 13**

Lucent Technologies, the world's largest maker of telephone equipment, more than doubled profits before charges for the third quarter. **Page 13**

Kohlberg Kravis Roberts, the US-based private equity fund and buy-out specialist, is to buy Willis Corroon in a deal valuing the UK-based international insurance broker at £951m. **Page 13; Lex, Page 12**

Acer of Taiwan, one of the world's biggest makers of personal computers, has warned of a slowdown in profits this year because of the Asian financial crisis. **Page 16**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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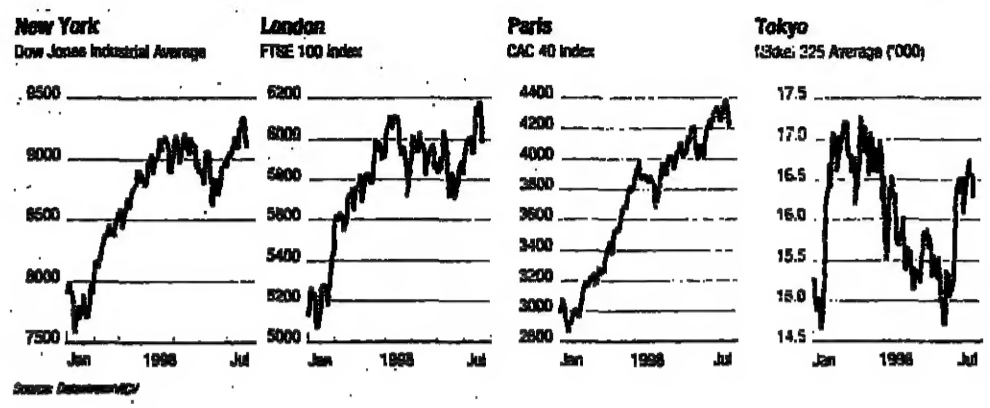
Greenspan halts share rally

Fed chairman's inflation warning takes heat out of stock markets



By Richard Adams

Stock markets around the world slipped back further from their recent record highs yesterday as cautious comments issued by Alan Greenspan, chairman of the US Federal Reserve, put a chill on global equities markets.

On Wall Street, the Fed chairman's comments, together with a number of earnings warnings from US companies, were enough to take the shine off a powerful rally that had driven US share prices to new records last week.

In early afternoon trading, the Dow Jones Industrial Average was 47 points lower, at 9,142.56, taking its two-day decline to nearly 200 points.

Mr Greenspan's comments to the US Senate's finance committee on Tuesday triggered a hefty retreat on the UK equity market, and sharp falls on exchanges in Paris, Frankfurt and Madrid.

In London, the FTSE 100 index dropped back through the 6,000 level, eventually finishing the session a net 143.1, or 2.34 per cent, lower at 5,989.6. Over the two sessions since Alan Greenspan's speech the index has fallen 189.4, or 3.1 per cent.

"Greenspan has told investors it looks as if growth is slowing because of Asia but inflation is picking up because of domestic conditions.

"The conclusion is that this is the worst possible combination for equity investors," said Ian Harnett, pan-European equity strategist at BT Alex.Brown, the stockbroker, in London.

In Paris, the CAC 40 index lost 101.96, or 2.4 per cent, to 4,220.19; Frankfurt's Xetra Dax index declined 102.99, or 1.7 per cent, to 6,081.11; while Madrid was 1.6 per cent lower with the general index closing at 920.33. Government bond prices retreated as the financial markets took a closer look at Mr Greenspan's testimony.

By early afternoon in New York, the benchmark 30-year Treasury bond was down ¼ at 106$\frac{1}{32}$, lifting the yield back to 5.671 per cent.

In the second day of his half-yearly testimony on monetary policy before Congress, Mr Greenspan repeated his warning of a day earlier that domestically-driven inflation remained a stronger threat to the US economy than an Asia-induced recession. He added that the Asian crisis had clearly dampened growth and was expected to continue to do so.

Jeff Applegate, equity strategist at Lehman Brothers, said: "Last week, the equity market was humming along with the view that the glass was half full. This week, it's the same glass, only it's half empty."

Computer Associates, Page 13; London stocks, Page 28; World stocks, Page 32; Bonds, Page 20; Currencies, Page 21

News Corp shares fall as Murdoch is sued for divorce

By John Gapper in London

Shares in News Corporation, the media company controlled by Rupert Murdoch, fell yesterday after his wife Anna filed for divorce in the California courts, raising uncertainty over future control of the group.

Mrs Murdoch, who is a board director of News Corp as well as a substantial shareholder, said in her application to the Los Angeles Superior Court that she was trying to find out exactly what assets the couple owned.

The Murdoch family has 31 per cent of News Corp, including shares held by Mrs Murdoch in her own name. Analysts said shares had weakened on fears that the family stake could be divided as part of a settlement.

Australian ordinary News Corp shares closed down 1.7 per cent at A$12.93, while News Corp ADRs were down ⅛ at 32⅝ in mid-afternoon trading on Nasdaq.

Mr Murdoch is thought to be confident that a divorce will not result in a change of management control or ownership of News Corp. However, he accepts there will be a divorce, and has started trying to negotiate a settlement.

"There is no intention of going through a messy divorce on either side. She is not asking for, and he has no intention of conceding, any change in control of the company," said an associate of Mr Murdoch's.

Any settlement is likely to take account not only of the family shareholding in News Corp – worth about US$9bn – but also of homes in Aspen, New York and London and other assets held around the world by the couple.

Mr Murdoch said last year that the family's holdings in News Corp had been placed under the control of their three children, Lachlan, Elizabeth and James, all of whom hold executive positions within News Corp.

Differences between Mr Murdoch and his wife, who were married in 1967, emerged three months ago when it was disclosed that they were separating. However, it was thought until the divorce petition that they would reconcile.

FINANCE MINISTER PLEDGES PUBLIC SPENDING BOOST AS HE UNVEILS BUDGET OUTLINE FOR 1999

French growth 'set to top 3% target'

By Robert Graham in Paris

French finance minister Dominique Strauss-Kahn yesterday said the country's economic recovery was so robust he expected growth to exceed its 3 per cent target this year.

His comments came as he unveiled a budget outline for next year that would increase spending by 1 per cent in real terms, and he dismissed suggestions France was not doing enough to reduce its fiscal deficit.

"Growth in the French economy in 1998 will be the highest among the major European economies," he said.

The minister's growth prediction was based on stronger than expected domestic demand, which he said had more than made up for the contribution from exports, which was weaker than anticipated due to faltering Asian markets. It follows an earlier forecast by Insee, the official statistics institute, that the economy would grow 3.2 per cent.

"We will finalise our forecasts for 1998 in September, but they will probably be slightly above 3 per cent," Mr Strauss-Kahn said.

His view was reinforced by publication yesterday of May industrial production figures, up 6.6 per cent year-on-year.

Mr Strauss-Kahn said the key to the rediscovered dynamism of the economy was job creation, which the Socialist-led government had helped stimulate since taking office in June 1997. He said more than 300,000 jobs looked set to be created this year – considerably more than predicted – and this had boosted disposable incomes, helped further by rises in the minimum wage.

Despite the expansionary stamp of the outline 1999 budget, Mr Strauss-Kahn insisted expenditure would be subject to tighter controls. The budget deficit would be cut to 2.3 per cent of GDP from 3 per cent, he said, and the government has ruled out a sharper adjustment in spite of extra receipts from the recovery.

"Some regard this deficit as still too high, but the rhythm of adjustment is among the highest in Europe," he said.

The fiscal measures represented a compromise between the demands of the business community for a lower tax burden and pressure from the government's leftwing supporters to squeeze more from the wealthy.

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Observer, Page 11

French finance minister Dominique Strauss-Kahn leaves the Elysée Palace after the weekly cabinet meeting yesterday Picture: Reuters

Cloning team produces generations of mice

By David Pilling

Scientists have cloned 22 mice from adult cells, even producing clones of clones, in the most significant development in this area since the cloning of Dolly the sheep in Scotland last year.

The Japanese-led team of researchers, working from a windowless warehouse at the University of Hawaii, has scored several firsts with research to be published in today's Nature, the scientific journal.

Not only is Cumulina (named for the cumulus cell from which she was created) the first mouse clone, but she has been made by a more reliable technique. While Dolly remains the only cloned sheep, there are more than 50 cloned Hawaiian mice.

The technique, licensed to ProBio, the Australian biotechnology company, may be applicable to larger mammals and even to endangered species.

In January ProBio filed for a patent in the US to protect the method. The company plans to seek a Nasdaq market listing within a year.

"We succeeded both in using a new method and new cell type to clone mice from adult cells, and in repeating it to produce clones of clones of clones – essentially identical mice born a generation or more apart," said Teruhiko Wakayama, lead author of the paper.

The discovery will inevitably reopen debate on cloning and its possible extension to humans. Many countries have banned such research. The US Food and Drug Administration said in January that until Congress passed law on the issue, it would act against anyone seeking to clone humans.

Anthony Perry, co-author of the research paper, said: "We are concentrating on the mouse model." He pointed out that pharmaceuticals companies used mice to study the effects of potential drugs, and cloning opened up the possibility of reproducing exact copies of a single mouse, possibly making it easier to assess data.

Of mice and sheep, Page 10

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9108.77	(–83.42)
NASDAQ Composite	1952.86	(–18.28)
Europe and Far East		
CAC40	4220.12	(–101.96)
DAX	6110.73	(–54.79)
FTSE 100	5989.6	(–143.1)
Nikkei	16,292.06	(–283.53)
US Lunchtime RATES		
Federal Funds	5.5%	
3-mth Treas Bills: Yld	5.070%	
Long Bond	106$\frac{3}{32}$	
Yield	5.690%	
OTHER RATES		
UK: 3-mo Interbank	7$\frac{9}{16}$%	(7$\frac{9}{16}$%)
UK: 10 yr Gilt	108.4844	(109.424)
France: 10 yr OAT	103.58	(103.56)
Germany: 10 yr Bund	104.23	(104.22)
Japan: 10 yr JGB	110.60	(110.53)
NORTH SEA OIL (Argus)		
Brent Dated	$12.11	(11.98)

GOLD		
New York: Comex		
	$294.2	(295.00)
London		
	$294.65	(295.45)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.6427	
DM	1.7881	
FFr	5.9930	
SFr	1.5106	
Y	141.15	
London		
£	1.6407	(1.6471)
DM	1.7907	(1.7876)
FFr	6.0020	(5.9923)
SFr	1.5137	(1.5105)
Y	140.99	(140.135)
Tokyo Close		Y 140.65
Sterling		
DM	2.9379	(2.9443)

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WORLD NEWS

EUROPE

Russian groups clash over economy

By John Thornhill in Moscow and Andrew Hill in London

A public dispute broke out among Russia's biggest energy companies yesterday, after Lukoil issued a statement criticising the government's "unreasonable and irresponsible" economic policies which, it claimed, threatened a social explosion within three months.

The statement attacked the International Monetary Fund's tough policy recommendations. On Monday the Fund approved an $11.3bn finance package for Russia and staved off the threat of a rouble devaluation.

"This deepens the crisis, aggravates the social situation, and will lead to the bankruptcy of those few enterprises capable of working effectively," Lukoil said.

The statement "had been agreed" with seven other big oil and gas companies. Some, including Gazprom and Sidanco, reacted furiously, saying they had not approved the statement's release. But Gazprom said it shared the concerns about the "complex" situation in the energy sector.

Russia's energy companies, which account for the bulk of federal tax revenues, have been hard hit by oil and gas price falls this year. They have been squeezed by the government seeking to raise extra revenue to narrow its budget deficit.

The government's planned cuts in corporate tax rates and oil excise duties have had to be dropped because of parliament's refusal to shift the tax burden on to the personal sector.

But Boris Nemtsov, deputy prime minister, said oil excise taxes would be cut if parliament agreed the government's anti-crisis programme in full during an extraordinary session set for August.

Ivan Mazalov, energy analyst at CentreInvest Group, a Moscow-based stockbroker, said many Russian energy companies believed a devaluation would help them, because such a high proportion of their cash was earned abroad.

"But, in practice, a devaluation may not be so good. There would be an endless race of expenses catching up with their revenues because Russia is basically a dollar-indexed economy. Initially, locally produced resources and machinery would be cheaper, but prices would inevitably be indexed upwards," he said.

Anatoly Chubais, Russia's chief loan negotiator, yesterday described the IMF's approval of the finance package as a "confidence vote" for the government's economic programme.

Mr Chubais, who met investment bankers in London, said Russia could return to the markets with an issue of eurobonds as early as September. "I discussed [this] with the presidents of major banks and they considered September would be reasonable. But they even said we shouldn't wait until September."

1999 BUDGET PUBLIC SPENDING TO RISE BY 1% IN REAL TERMS

France to focus on jobs, social justice and environment

By Robert Graham in Paris

With a sharp eye for the populist gesture, Dominique Strauss-Kahn, French finance minister, yesterday unveiled the broad outline of the 1999 budget shaped around three themes – jobs, social justice and the environment.

He made it clear the one-year-old Socialist-led government was committed to continuing its stimulus to job creation and believed in a mildly expansionary budget that increased public spending by 1 per cent in real terms.

He fixed the deficit target at 2.3 per cent of gross domestic product against 1997's 3 per cent, and was unapologetic about this being high by the standards of the euro-zone.

On the fiscal side the main innovation was a change and cut in the *taxe professionelle* – levied on companies on the basis of their fixed assets and payroll.

But officials said measures cutting some FFr16bn ($2.6bn) in taxes would have very little impact on taxes as a proportion of gross domestic product, currently 46 per cent.

To signal he had the public at heart, Mr Strauss-Kahn announced the end of an unpopular levy on driving tests and stamp duty on identity cards.

For every segment of society, save the very rich, he offered some satisfaction. This left criticism muted but few really happy.

The shake-up in the *taxe professionelle* was presented as a central element in job creation. Wages account for 35 per cent of the basket of items on which the tax is assessed and employers have criticised it as a significant brake on new hirings, especially in labour intensive businesses. The phasing-out will immediately benefit small companies to the tune of FFr8.4bn, and will help soften the as yet unknown cost of implementing the move to a 35-hour week in 2000.

Other job creation aids included a tax break of FFr10,000 per new job.

A further measure with an important potential impact on employment was a decision to cut the high taxes levied on property transactions by 20 per cent. Stamp duty will be removed, with the state compensating local authorities for its removal, reducing the overall tax level to 6 per cent and so boosting the property market.

Under the heading of social justice, which appeals to the government's leftist electorate, the wealth tax applied on a sliding scale on assets over FFr4.7m will be increased.

A new scale of 1.8 per cent will also be applied to the 800,000 fortunes over FFr100m, while it will become more difficult to adopt tax exile status.

Loopholes in the use of life assurance polices for death duty avoidance are being closed, and tax credits on certain types of dividends will be reduced.

The government will also begin an update of the land register – untouched in some instances since 1961 – with a view to regauging the property tax. The aim is to ensure low income homes pay less, while raising the contributions from the better off by as much as 15 per cent. Low incomes will also benefit from VAT cuts on electricity and gas supply contracts.

On the green side, the government avoided the traditional cross-the-board petrol tax increase but focused on diesel fuel, which will be raised by eight centimes. This was part of a broader policy to penalise pollutants.

The five current pollution taxes will also be unified, while value-added tax on the treatment of waste products will be cut to 5.5 per cent from 20 per cent.

Dominique Strauss-Kahn: 'committed to job creation' Reuters

UK resists ban on oil rig dumping

By Peter Wise in Sintra

Britain stood isolated from its European partners yesterday in resisting total bans on the marine dumping of disused oil rigs and radioactive discharges from nuclear reprocessing plants.

UK proposals that could mean an exemption from a dumping ban for the foundations of up to 123 offshore rigs won support only from Norway at a meeting of European environmental ministers seeking ways to prevent maritime pollution.

Britain was also alone in failing to express a commitment to reducing the emission of radioactive substances to close to zero. France, the only other European nation with a nuclear reprocessing industry, said it would back this goal as far as it was "technically feasible".

"It is a pity Britain is not prepared to show the same degree of flexibility," said Simon Reddy, a Greenpeace activist.

But John Prescott, the UK's deputy prime minister, said there had been a fundamental change in the British position in favour of greater protection for the oceans. "We have arrived at what we think is a fair position, one that is radically different from the previous [Conservative] government's."

Britain is under strong pressure from other European governments to adopt a more flexible stance at the meeting in Sintra, Portugal, of the Oslo Paris Commission (Ospar), which is due to reach an agreement today on a strategy for protecting the North-East Atlantic.

A British proposal that would provide an option for the rig foundations, known as "footings", to be disposed of at sea is likely to be rejected by a large majority of countries.

While Norway – the only other country with such rigs at sea, which has also mooted the controversial idea of disposing some of them in the Arctic – backs the British position, other countries want a total ban on the dumping, with possible exceptions for the footings of the seven biggest structures.

The UK Offshore Operators Association, which represents rig owners, said yesterday it was disappointed with the British government's decision to seek a removal exemption only for footings.

A spokesman said that, in the interests of both safety and the environment, a case-by-case decision should be made on how best to dispose of the basic structure of more than 100 of the largest rigs.

Scandinavian countries are leading a bid to reduce discharges of radio-active substances to close to zero by 2020.

This would almost certainly lead to the closure of Europe's three nuclear reprocessing plants – two in Britain and one in France.

Dublin ends tax dispute with EU

By John Murray Brown in Dublin

The European Commission yesterday approved Irish plans to phase in a single rate of corporation tax of 12.5 per cent by 2003, ending a long-running dispute over its tax policy, which several member states contended was anti-competitive.

Ireland currently has two rates - a 10 per cent preferential rate for manufacturers and for companies in Dublin's offshore International Financial Services Centre, and a 32 per cent rate for other companies.

Under the deal concluded with Brussels yesterday, Ireland will introduce a 12.5 per cent rate for all companies by the end of 2002.

Charlie McCreevy, Ireland's finance minister, said negotiations with Karel Van Miert, the competition commissioner had been "sometimes fraught with difficulty but this is good news for the Irish economy."

Ireland's low tax rate has been the mainspring of the country's success in attracting foreign investment, which accounts for 75 per cent of manufactured exports, 55 of manufacturing output and 45 per cent of manufacturing employment.

Mr McCreevy said the new regime would be "fully compatible" with the EU code of conduct on business taxation agreed by finance ministers in December.

The code sets out to curb the predatory use of special tax rates, which distort investment flows and divert exchequer revenues.

Ireland's change in rates will only affect new investments. It will not cover existing foreign investors and those on an agreed "pipeline" list which will be taxed at the 10 per cent rate until 2010, in line with the original agreement with the Commission and until 2005 for financial services.

The move will mean a 4 per cent a year cut in the standard rate of corporation tax in each of the next 5 years.

In order to ensure an orderly transition period, Ireland has agreed to approve no more than 77 projects between now and the end of 2002 – 67 projects in the case of the IFSC.

Prodi on course to win confidence vote

Communists look set to give the Italian prime minister their support but wrangle over budget looms in autumn

By James Blitz in Rome

Romano Prodi, Italy's prime minister, was on course to win a vote of confidence in the Italian chamber of deputies last night after three weeks of negotiations with the Reconstructed Communism party on which he depends for a parliamentary majority.

The Communists looked set to give the centre-left government its support in the vote. But an intense confrontation between Mr Prodi and Fausto Bertinotti, the Communist leader, is now certain in the autumn when the annual budget comes before parliament.

Mr Prodi insisted on the confidence vote after the Communists unsettled the government last month by voting against legislation ratifying enlargement of the North Atlantic Treaty Organisation eastwards.

The prime minister later told parliament he sought a "full show of support" from coalition parties for an agreed policy programme that would last the rest of this parliament. Mr Bertinotti has stopped short of making such a commitment.

Mr Bertinotti says he will deliver a firm judgment on the government's policies when he sees the details of the finance bill in the autumn. Mr Bertinotti says he will want to see whether the finance bill, setting out the budget for 1999, contains the seeds of a real turnaround in Italy's economic prospects, boosting the southern economy and reducing unemployment.

Exactly what Mr Bertinotti wants from the budget is still uncertain. One senior government official said: "It is worrying that we are going into the summer break without having a cast-iron agreement on which the administration can move forward."

In an attempt to soften the clash with the Communists, Mr Prodi has already made commitments that could be at the heart of the debate between the two sides in September.

First, legislation introducing a statutory 35-hour week in Italy will definitely be enacted by the end of the year. The 35-hour week bill was the price exacted by Mr Bertinotti for supporting the centre-left government last October. Secondly, a new development agency for the south will be created, to stimulate the economy of the *Mezzogiorno*. Its exact terms are still to be fleshed out. But Mr Prodi has said "the activity of the agency will be expressly aimed at creating a certain number of jobs, the number of which will be determined each year".

Thirdly, an existing agency called *Italia Lavoro* will find temporary jobs for around 150,000 "socially useful workers".

Earlier this year, it looked as though the government might phase out "socially useful work", a scheme under which people received a payout for doing manual jobs. People on the scheme will now be paid with public money to do work for local councils.

What Mr Bertinotti wants from the budget is uncertain

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Brussels unveils 'fair price' plan for transport

By Michael Smith in Brussels

The European Commission yesterday unveiled proposals for making businesses pay "fair" prices for transport infrastructure and estimated resulting savings at about Ecu50bn ($55.5bn) a year.

The European Union executive's aim, outlined in a "white paper", is to replace a patchwork of charging arrangements with a harmonised "user pays" approach.

Charges for using roads, railways, ports and air traffic services would be closely aligned to costs including those incurred through accidents, congestion and pollution.

Taxes and tolls for lorries of 12 tonnes and above would be replaced by charges per kilometre.

The Commission also proposed measures to ensure a more efficient use of railway infrastructure.

Three directives would help increase competition on rail networks by establishing tighter rules for the allocation of infrastructure capacity and for the charging of infrastructure fees, and by requiring rail companies to keep more transparent financial accounts.

Neil Kinnock, EU transport commissioner, believes European rail networks must be opened up to competition if they are to increase their 16 per cent share of the freight market.

Introducing the infrastructure white paper, Mr Kinnock said different approaches between countries had created huge competitive distortions between transport sectors and between member states.

The idea was to establish an EU framework leaving member states free to set charging levels.

The framework would cover commercial transport, but not passenger cars.

The underlying principle of the white paper is that charges should be related to marginal social costs, reflecting the cost of an extra vehicle using the infrastructure.

This is likely to benefit railways since, according to the Commission, the cost of putting an extra lorry on a crowded motorway may be high, while the cost of an extra train carriage may be negligible.

A specially created committee of transport experts from member states would help establish ways of estimating marginal costs and develop accounting methods over the next two years.

The policies would be put into effect between 2001 and 2004.

The Commission says fair pricing would improve the efficiency of transport systems and reduce environmental costs.

While some users would pay more, overall savings of at least Ecu50bn would lead to reduced prices for most commercial transporters and to infrastructure improvements.

NEWS DIGEST

RUSSIA

Former Soviet planning chief to be trade minister

The former head of Gosplan, the Soviet economic planning agency, is to be appointed Russia's next trade and industry minister, Sergei Kiriyenko, prime minister, confirmed yesterday. The appointment of Yuri Maslyukov, now a Communist deputy and head of the parliamentary economics committee, will come as a shock to many observers, who have argued Russia has its most economically liberal government since reforms began.

For years, Mr Maslyukov has been a fierce critic of the government's economic policies and advocated stronger state support for industry. In his new post, Mr Maslyukov, 60, will be responsible for a range of industrial matters including management of the state arms manufacturing sector. He will also have a large say in determining Russia's external trade policy.

The government has recently lifted import duties by 3 per cent to raise additional revenue and to keep its balance of trade in check. But Russia is still formally committed to liberalising its foreign trade regime with a view to joining the World Trade Organisation. **John Thornhill, Moscow**

GREEK PUBLIC SECTOR

Unions call 24-hour strike

Greece's public transport companies, utilities and state-controlled banks are staging a 24-hour strike today in protest against the Socialist government's plans for liberalising the labour market. Olympic Airways, the state carrier, announced a three-hour stoppage. OSE, the state railways, said all train services would be cancelled. GSEE, the main union grouping for public sector companies, claims the measures will lead to mass dismissals and reductions in real wages. Transport workers fear government plans to restructure rail and bus services will result in longer working hours.

To drum up support for the walk-out, GSEE and the unions of OTE, the public telecoms operator, paid for television spots calling for workers to join a demonstration in central Athens and march to parliament. A draft law due to be approved in parliament this month will introduce part-time working in state enterprises and allow employers to pay overtime on an annual basis.

■ Lawyers in Athens said yesterday EasyJet, UK-based low-cost carrier, could resume advertisements of cut-price flights between Athens and London provided these included additional information on UK airport taxes. Stelios Hadji-Ioannou, EasyJet's founder, is contesting a civil suit brought by Greek travel agents, who were outraged by the airline's advertising slogan: "Forget your travel agent." Mr Hadji-Ioannou said yesterday: "In fact, we don't need to advertise at the moment because we've had so much publicity over the case." **Kerin Hope, Athens**

BAVARIA TAX INVESTIGATION

Kirch probe terminated

Leo Kirch, the reclusive German media mogul, received a significant boost to his fortunes yesterday when state prosecutors in Bavaria announced the end of an investigation into alleged tax evasion by his broadcasting and film distribution business. The senior prosecutor in Munich said that after three years of investigation there was no evidence to prove Mr Kirch or his company had dodged taxes due in connection with the sale in 1989 of a package of films to a Swiss-based company for DM500m ($278m).

The films were later sold on to SAT-1, a German television station in which Mr Kirch is the dominant shareholder, for a significantly higher amount. The state prosecutors opened its investigation on the basis of suspicions that the Swiss company was acting in concert with Mr Kirch to help him overcome a liquidity crisis.

Over the last year the tax probe was one of several negative factors dogging the privately-held Kirch Group. In May the European Commission blocked Kirch's plans to merge its digital pay-TV interests with those of CLT-Ufa, a Luxembourg-based broadcasting group in which Bertelsmann of Germany has a 40 per cent stake. **Frederick Stüdemann, Berlin**

SWITZERLAND

Public sector debt tops $132bn

Switzerland's reputation as one of the world's most financially conservative states has suffered a setback with the revelation that its public sector debt has topped SFr200bn ($132bn). The combined debt of the Swiss government, the cantons and local communities has more than doubled since 1990 and is now equal to 3.5 per cent of its gross domestic product, according to the Swiss finance department.

On this basis Switzerland would fail to qualify for membership of European Monetary Union which specifies a maximum government deficit of 3 per cent of GDP. Although Switzerland does not belong to the European Union, the surge in its debt ratio from 31 per cent of GDP in 1990, to 53.5 per cent this year, has already attracted critical comment from the International Monetary Fund. Switzerland has traditionally been a country of sound government finances but the combination of six years of economic stagnation and weak government has led to a significant deterioration in its financial position. **William Hall, Zurich**

FRENCH BANK SECTOR

Brussels orders aid repayment

The European Commission yesterday ordered Société de Banque Occidentale (SDBO), a Crédit Lyonnais subsidiary, to repay FFr240.5m ($40m) of state aid to the French government. The Commission, the European Union's executive, said that because it had not been notified of the transaction, the aid was illegal. Before the recapitalisation, SDBO was technically bankrupt and "could have been liquidated at a lesser expense to the shareholder", the Commission said.

"A private investor, under comparable circumstances, would not have injected a similar amount of non-returnable capital," the Commission said, concluding that the aid was "therefore not compatible" with EU law. **Samer Iskandar, Brussels**

POLISH DEFENCE

Upgrade to cost $2.3bn

Poland will spend more than 8bn zlotys ($2.3bn) by 2003 to upgrade its armed forces to Nato standards, Janusz Onyszkiewicz, defence minister, said yesterday. The five-year programme, mainly to upgrade communications, command-and-control systems and air defences, is the key part of a 40bn zloty scheme to trim and modernise the armed forces in the next 15 years, Mr Onyszkiewicz said. Poland, along with the Czech Republic and Hungary, was set to join the western defence alliance next spring.

He brushed aside concern that Poland's obsolete defence equipment and the lack of knowledge of English among high-ranking officers, mostly trained during pre-1989 communist rule, impaired the country's fitness to join Nato.

"Our philosophy continues to be...smaller armed forces, but better trained and equipped," he said. The number of divisions is to shrink to six from 11. **Reuters, Warsaw**

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Spanish TV satellite platform accord

By Tom Burns in Madrid

Telefónica, the dominant Spanish telecoms operator, and Sogecable, the TV unit of the powerful domestic media empire Grupo Prisa, are to merge their rival digital TV satellite platforms. The accord is likely to end a bitter and long-running battle for control of Spain's potentially lucrative pay-per-view market.

The deal has political overtones because the launch of Via Digital, the platform controlled by Telefónica with a 35 per cent stake, was engineered by the ruling Popular party to avert a digital TV monopoly by the broadly pro-socialist Grupo Prisa. The deal is a relief to the centre-right government, which throughout the row was accused of distorting the market and of curtailing press freedoms by manoeuvring against a hostile media group.

The agreement, which will be based on the parity of the two partners and will be forwarded to regulators on September 30, is likely to have far-reaching consequences for suppliers – from US programmers to Spain's first division football clubs – who gained big contracts by exploiting the rivalries of the two broadcasters.

The accord will ensure a financially viable digital TV business in Spain. The settlement is also likely to be welcomed by minority shareholders of Sogecable's Canal Satélite Digital, which include Banco Bilbao Vizcaya, and of Via Digital, which includes the Recoletos Group, controlled by the UK-based Pearson Group, owner of the Financial Times. The two ventures have made large capital calls on their backers.

The fight over the pay-per view market had been played out between the government and Grupo Prisa in parliament, the law courts, Brussels and the editorial pages of El Pais, Prisa's flagship newspaper.

Legislation was introduced to curb Sogecable's football broadcasting rights and delayed introduction of its decoders. Criminal proceedings took place gainst Sogecable's directors linked to alleged business fraud. The case fell apart earlier this year and the judge who investigated the charges is being prosecuted on counts of legal malpractice.

IMF insists Ukraine must cut tax breaks

Girls in national dress present traditional bread and salt yesterday to US vice-president Al Gore, in Ukraine for bilateral co-operation talks. Mr Gore will also visit the Chernobyl nuclear site AP

By Charles Clover in Kiev

The International Monetary Fund will today press Ukraine to slash some 1,000 tax exemptions as a key condition for handing over a $2bn-$2.5bn loan to the cash-strapped nation.

Getting rid of the tax privileges, distributed by the government on what one western economist described as "an ad-hoc basis", would help raise revenue and shrink the country's massive shadow economy.

In order to start disbursing the loan over three years, the IMF has asked the government to cut planned expenditures in the remaining half of the year by 30 per cent, or 4.4bn hryvnia ($2.1bn), and find an extra 1.7bn hryvnia in revenues.

Ukraine's refusal to tackle the exemptions played an important role in sinking a similar IMF long-term loan programme last year. But now Ukraine has its back to the wall.

With a heavy debt service schedule and limited foreign exchange reserves, the only way for the government to avoid a default on its foreign debt or a devaluation is to agree to the IMF's terms.

In order to remove tax breaks, however, the government will have to take on very powerful vested interests. "It will be very difficult to get parliament to agree to cut these exemptions," admitted Ihor Mitiukov, the finance minister.

Most problematic will be the zero-rating of value-added tax for coal, natural gas and electricity, which the IMF would like to see raised to 20 per cent, the VAT level in the rest of the economy.

Such a move could yield 7bn hryvnia in annual revenue, said Khwaja Sultan, an economist at the Harvard Institute for International Development (HIID) in Kiev. But Ukraine's cash-starved economy is run by monopolistic trading companies which control the supply of energy products through their ties with government.

Taxing energy would not only hurt the trading companies' revenues, but undermine the shadow economy in which they are heavily involved.

"VAT is the best way to smoke out the shadow economy, but it is useless unless it is charged at the very beginning of the value-added chain, on things like imports and energy," said David Snelbecker of HIID. "Otherwise it is quite easy to evade."

Chechnya kidnappers free Russian police

By Carlotta Gall in Baku

Gunmen in Chechnya have released six policemen seized in a bloody raid on a Russian military base last December and held captive for seven months in the rebellious republic.

The hostages, all members of the Russian police force, were exchanged for three of the attackers who were detained by local authorities at the time of the raid.

The exchange is the latest example of Russia's powerlessness in its battle against the well-armed kidnapping gangs operating in the north Caucasus region on its southern rim. After months of refusing the gunmen's demands, the local authorities appear to have given in.

The six policemen were from the republic of Dagestan, which borders on the semi-independent republic of Chechnya. Dagestan has been swamped with weapons and violence in recent years, largely a spillover from the Chechen war which ended nearly two years ago.

Kidnapping gangs have been operating with increasing impunity, holding for ransom locals, some 16 foreign aid workers, and even President Boris Yeltsin's special envoy to Chechnya, Valentin Vlasov. Ransom demands can run up to $1m.

The six policemen were some of an estimated 30 Dagestanis being held captive.

Five Russian soldiers, seized from their military base outside the capital, Makhachkala, last month are among that number. Chechen authorities estimate over 60 people are in captivity across the region.

Some of the kidnappers are purely criminal. Others, such as those who seized the policemen, are Islamic extremists, so-called Wahhabis, who are calling for separation from Russia and the establishment of an Islamic state.

They are mostly Chechens and Dagestanis, but are led by a core of Arab fighters and appear to have international backing, according to Magomedsalikh Gusayev, Dagestan's minister for nationalities and Security Council secretary.

New Czech premier takes up the hot seat

By Robert Anderson in Prague

Zeman: must prove he has what it takes to be prime minister

Milos Zeman has built a political career out of being a troublemaker. He must now demonstrate that he also has what it takes to be a prime minister.

The Czech Republic's new man in charge, whose cabinet was sworn in yesterday, "is a born leader, a political animal", said Jiri Pehe, President Vaclav Havel's political adviser.

But whether he will be allowed to lead for long is an open question. As Mr Zeman himself said: "I am aware that to become prime minister at this time is a kind of political suicide."

If this prophecy is not to become self-fulfilling Mr Zeman will need to use, but also tame, the instincts that have brought him to the premiership.

Like several of the Social Democrat (CSSD) ministers in his rather elderly cabinet, Mr Zeman joined the Communist party in 1968 during the Prague Spring of "Socialism with a human face" when he was 23. But he was purged after the Russian invasion and then struggled to hold down jobs while signing petitions and writing articles against the new hardline regime.

After the 1989 Velvet Revolution he became the foremost rebel against the rapid economic reform model put into practice by finance minister and later prime minister Vaclav Klaus.

Their rivalry is said to date back to when they were both economists at an economic forecasting think-tank of the Academy of Sciences – an extraordinary breeding ground for post-communist talent – and the acerbic Mr Klaus tore apart a paper he put forward.

Both were afterwards key figures in Civic Forum, the umbrella pro-democracy movement that took power in 1989. Mr Zeman became – according to Ivan Gabal, the successor party's election manger – a "disruptive influence" who was later expelled.

Mr Zeman, who had described himself as a liberal, moved steadily leftwards as he attacked Mr Klaus's then widely admired reforms until he joined the CSSD in 1992, becoming its leader the following year.

He radicalised the party and built its vote up from 6.5 per cent in 1992 to 32.3 per cent in last month's election. In that election both he and Mr Klaus ran highly personalised campaigns to emphasise that they were the only alternatives to each other.

Though the country's two outstanding politicians admit mutual respect, it was nevertheless a surprise when they appeared smiling after the election to announce that they had agreed that the CSSD would form a minority single-party government.

Many observers were quick to judge that Mr Klaus had got the best end of the deal. Mr Zeman will take office in the middle of an economic slowdown and, having only a minority in parliament, can be obstructed and brought down at Mr Klaus's whim.

Mr Zeman is a workaholic, an intellectual but with a jokey popular touch. He chain smokes, likes Czech beer and plain food, and always appears rumpled in whatever he wears.

He is also an indefatigable campaigner and covered more miles than any other politician in his election bus.

He is probably the best political orator but his rhetoric sometimes runs away with him.

His attacks on "a government of thieves" which had left behind an economic "wasteland" has given him an extremist image but he has also shown pragmatism in the previous rightwing governments and conducted the post-election talks.

A more serious problem is that he is a self-reliant loner – perhaps stemming from being brought up in straitened circumstances as an only child without a father – and has shown little ability as a manager of people.

"He is a solo man," said Alexandr Mitrofanov, editor of Pravo, the only newspaper that supports the CSSD. "He doesn't have political friends. He doesn't have a gift to attract people but they respect his results."

This has meant that unless Mr Zeman puts his authority on the line – as he did over selecting a cabinet – his party can appear divided and directionless.

It can also mean he is isolated and does not test his own judgment against his colleagues. Egon Lansky, a former adviser and now deputy premier, said Mr Zeman cannot "fight the temptation" to publicise alleged political subversion by the secret service. To general ridicule he has produced two briefcases of secret documents as evidence, though a smear campaign before the elections suggested he may have reason for his fears.

By choosing four deputy prime ministers to reduce his workload Mr Zeman appears to accept these criticisms. He seems determined to be more of a team leader than Mr Klaus but he will also need to show the decisiveness he demonstrated in the post-election talks to win his way in cabinet and set a moderate policy course.

Leading a minority government will be his biggest test yet. As Jan Kavan, the new foreign minister, said: "It will be our first attempt at governing and it will be harshly judged. If we fail it could be a very long time before the next Social Democrat government."

BUDGET SURPLUSES MORE IMPORTANT TO SHORE UP LONG-TERM SOCIAL SECURITY FINANCES, SAYS TREASURY SECRETARY

Rubin attacks tax-cutting proposals

Rubin: No certainties

By Gerard Baker in Washington

Plans by some Republican members of Congress for a hefty tax cut this year and for the next several years are "an unsound and unwise strategy", Robert Rubin, the Treasury secretary, warned yesterday.

Mr Rubin told a Senate finance committee hearing it was premature to count on large budget surpluses over the next few years and said the most important priority was to shore up the long-term finances of social security, the public pension system.

"Projections are exactly that, projections, not certainties, and subject to change, even great change. We shouldn't commit to any policy, let alone a large tax cut, to use the projected surplus until social security's long-term financial integrity has been effectively addressed."

Mr Rubin's remarks were directed at the intensifying debate in the majority Republican party in Congress over what to do with the growing federal budget surpluses that now seem certain, beginning this year.

Newt Gingrich, the speaker of the House, has called on Congress to pass a significant tax-cutting budget and yesterday John Kasich, the chairman of the House budget committee, was expected to present proposals to his colleagues for tax cuts of about $500bn over the next 10 years.

Mr Kasich and Mr Gingrich believe the scale of projected surpluses is now so large that there will be enough room both to sort out social security and to cut taxes.

But Republicans in the Senate are opposed to big tax reductions, largely siding with the administration in its caution about giving away public money that has not yet been received.

But the pressure for tax cuts is growing with new figures that have repeatedly revised upward the scale of the government's expected surplus. Last week, the Congressional Budget Office, the politically independent fiscal research body, said the surplus this year was now expected to be $63bn, rising to $250bn in 2008. The accumulated surplus over the 10-year period could be more than $1,500bn.

In January President Bill Clinton launched his campaign to "save social security first" – urging Congress not to spend the deficit until the problems in the public pension system had been addressed. Social security faces a financial crunch in about 20 years' time as the number of retired people grows significantly.

At the time, Republicans broadly accepted the call but since projections of the budget surplus began to grow larger, many conservatives have signed up to the idea of tax cuts.

The types of tax cuts under consideration include capital gains tax reductions, the elimination of the so-called "marriage penalty", whereby a married couple who both work pay more in tax than would an unmarried couple, and more tax credits for various expenditures. There is also widespread Republican interest in a more sweeping tax cut that could be part of the introduction of a flat tax on all incomes, rather than a graduated system.

Mr Rubin said yesterday such plans would do nothing to address the long-term problem of chronic under-saving in the US.

Eizenstat sees no early Nazi gold settlement

By Mark Suzman in Washington and William Hall in Zurich

Stuart Eizenstat, US undersecretary of state, yesterday said he saw little hope of a rapid resolution to the increasingly bitter dispute between Swiss banks and Holocaust survivors over the Nazi gold affair, but warned that any attempt to reopen the original post-war agreements on the matter would be counterproductive.

Testifying before the Senate banking committee, Mr Eizenstat also criticised plans by several US states to impose sanctions on Switzerland over the affair and urged all sides to observe a "breathing space" to prevent further deterioration in US/Swiss relations. "I regret to say there is no realistic short-term prospect of a broad settlement," he said.

Mr Eizenstat's comments come at a time when feelings are running high in the US over the issue of assets belonging to Holocaust survivors that were looted by the Nazis and then retained by bankers in Switzerland and other neutral countries. Lawyers have rejected an offer by the big Swiss commercial banks – Credit Suisse and UBS – to settle an outstanding class action lawsuit over the issue for $600m, arguing that the sum should be at least $1.5bn.

A number of US states have threatened to implement an escalating series of sanctions against Swiss companies from September unless the issue is been resolved. Meanwhile, public opinion in Switzerland has hardened against a larger settlement.

At the hearing, Alfonse D'Amato, committee chairman, accused the Swiss of "avoiding legal and moral obligations", and proposed reopening the 1946 accords under which the Swiss government turned over some gold and other assets that had been deposited in Swiss banks by Nazis using looted funds. Recent investigations have shown that the Swiss retained a much larger proportion of those assets than originally thought.

However, Mr Eizenstat said that while the 1946 agreement had been "unsatisfactory", any attempt to reopen it would only harden the Swiss position, delaying a final resolution.

New man in Mexico has fences to mend

By Leslie Crawford in Mexico City

The long-awaited arrival this week of Jeffrey Davidow, the new US ambassador to Mexico, has raised hopes of an improvement in the complex and often fractious relationship between both countries.

The post had been vacant for more than a year, and it showed. Relations reached a low ebb in May, when the US disclosed a three-year sting operation to trap suspected money launderers.

Operation Casablanca, billed as the biggest money laundering investigation in US history, led to the arrest of more than 100 suspects and the indictment of three Mexican banks in the US.

But in Mexico, the operation was depicted as a violation of national sovereignty breaching several co-operation accords on drug trafficking. Rosario Green, Mexico's foreign minister, said Operation Casablanca had dealt the worst blow to relations in many years. She vowed to seek the extradition of US u[illegible]ver agents who had b[illegible] Mexican law by bribing b[illegible] employees to launder drug profits.

Mr Davidow's first task, therefore, will be to soothe wounded sensitivities. In an interview with the Mexico City News, an English-language daily, he admitted that the US had made mistakes in Operation Casablanca, and that better co-ordination between both governments was needed.

Mr Davidow, a diplomat who has spent much of his 28-year career in Latin America, and who was an assistant secretary of state for inter-American affairs during the two years before his new appointment, could begin by co-ordinating the dissenting voices on US policy towards its southern neighbour. In recent years, the State Department and US Treasury, whose concerns lie with Mexico's economic and political stability, have often been at loggerheads with US drug enforcement agencies, which view Mexico as a threat.

US administrations have found it difficult to reconcile the growing economic integration between the two countries, underpinned by the North American Free Trade Agreement and two-way trade of $177bn last year, with the entrenchment of Mexico's drug cartels and their control of more than 60 per cent of the cocaine that enters the US.

What Mexico most values in a US ambassador is his direct access to the US president. Relations with the rest of the administration are conducted through a Binational Commission, the most extensive consultation mechanism between the US and any foreign government. The commission meets once a year and has grown since its inception in 1981 to encompass 16 working groups, headed by their respective cabinet secretaries.

Recycling rocketeers set out to demystify space

Entrepreneurs hope reusable launch vehicles will open up the cosmos to commerce, reports **Christopher Parkes**

Not many people believe those old Lockheed L1011 airliners mothballed in the Mojave Desert will ever fly again. Few imagine there is a peaceful use for a stockpile of 20-odd-year-old Russian missile engines, and probably fewer still are able to conceive that you can learn to pilot a spacecraft by flying a helicopter sideways.

But all things are possible to the US entrepreneurs developing reusable launch vehicles (RLVs), which will open up space for commerce by providing cheap, reliable transport.

The Lockheed fuselage sections and landing gear have been earmarked for recycling in the Astroliner, a manned shuttle-sized craft under development by Kelly Space & Technology.

The Russian NK-series boosters are even now being cleaned up ready to fire Kistler Aerospace's reusable K-1 into space early next year, and Rotary Rocket has just taken delivery of a second-hand helicopter to train pilots for its Roton craft, due up – and down – in early 2000.

Such companies are the leaders in a new branch of the US aerospace industry dedicated to breaking the domination of space transport by the shuttle and government-subsidised booster rocket makers.

Manned by hard-headed veterans of the west's shrunken space industry and the government's downsized programmes, they have centuries of combined experience to draw on. They believe that by blending proven technologies in new configurations, they can bring down the cost of space transport to a fraction of today's rates.

Meanwhile, the mainstream aerospace companies press on with schemes which may reduce costs by 10 or 20 per cent. Boeing is developing Sealaunch, an ocean-going launchpad for expendable rockets. Lockheed Martin, blessed with almost $1bn of government funds, is making the X-33 pilotless RLV as a prototype for the Venturestar, with projected development costs of about $5bn.

Kistler, which boasts George Mueller, the former head of the National Aeronautics and Space Administration's Apollo project as its chief executive, reckons its launch prices will be less than half the current average of $10,000 per pound of payload. Kelly Space's co-founder, Michael Gallo, has his company's estimate – $1,974 per pound – refined almost to the last cent.

Both companies have contracts with big-name telecommunications groups to launch satellites into the low earth-orbit constellations which will serve the global cellular telephone market. More than 800 launches are planned in the next eight years in a blitz which, at today's take-off rates, will overwhelm the capacity of the traditional expendable rocket makers.

Telecoms is driving growth in commercial space revenues at a compound rate of almost 60 per cent, according to SpaceVest, a venture capital specialist, which says that in 1996 private spending in the sector exceeded government outlays for the first time.

Winning a piece of a market worth about $80bn a year is an ambition the adventurers share. They also have a common belief in the viability of old technology. None is having an easy time raising capital.

Even so, enough money has flowed in to keep their projects on schedule. Robert Wang, Kistler's chairman and chief fund-raiser, says he has raised $300m so far. Investors include Li Ka-Sheng, the Hong Kong billionaire, and "European individuals and companies", he says.

Rotary Rocket drew attention to itself when Tom Clancy, the novelist, invested $6m of his fortune and joined the board: he was followed by Richard Smithies, head of Barclay Investment's dedicated space division, who is now working to round up serious funds towards the $100m needed to make an operational vehicle. Kelly Space has private funding to build and launch two preliminary mini-versions of its craft, and plans to raise more with bonds.

Most conventional technology is based on the ballistic missile and other systems developed "in haste" during the cold war, says Mike Kelly of Kelly Space. The booster rocket provided a relatively simple big-bang launch mechanism, and other evolving techniques were put aside. "We are rocket men. We don't like wings," he says, recalling the philosophy during his time at defence contractor TRW.

Geoffrey Hughes, Rotary Rocket's business development chief, tells how a hover-landing system similar to the Roton's was tested on the Apollo capsule before being shelved because the space race demanded speed, and parachutes were already available.

The result is a monolithic industry structure supported by the 25,000-employee bureaucracy of Nasa and government money.

"We got stuck with the vertical launch because of the cold war," says Mr Kelly. In the past, industries such as engineering and vehicle manufacture turned their hand to military tasks when war threatened or came, and later returned to their usual business. "The space industry was born in a wartime environment, never knew anything else, and had nothing to go back to."

Yet even as he and his counterparts look to the past to find their way forward, they must wrestle with other entrenched ideas about space which, they say, give investors a distorted notion of the technological obstacles and the commercial and human risks involved in a industry which is more than 40 years old.

"We want to demystify the industry, and the concept of astronauts as national treasures," says Mr Gallo. "No-one thinks of divers in that way, even though they work in an environment far more hostile than space.

"Everyone watches and cheers when the shuttle goes up, but no-one claps at the airport when an airplane takes off."

Rocket science: new market frontiers, old hands

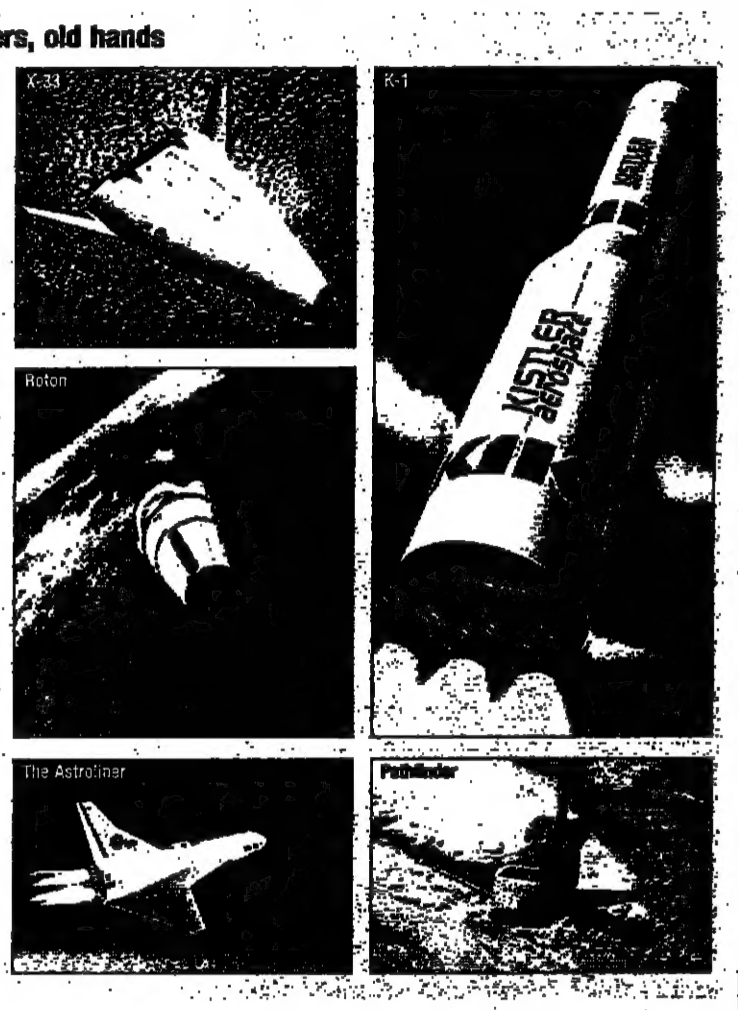
Lockheed Martin
● X-33: Representing the mainstream "competition", this unmanned RLV prototype is under design at Lockheed's Skunkworks facility in California. To be named Venturestar in its production version, its development is being funded with $900m of government funds.

Kistler Aerospace
● K-1: A conventional-looking, unmanned, two-stage vertical take-off vehicle with an airframe designed for 100 flights. As the payload is delivered, its main components will descend on parachutes to land. First flights are expected from the Woomera test range in Australia with launch-to-land permission expected for the former nuclear-testing zone in Nevada.

Rotary Rocket
● Roton: A piloted single-stage VTO craft, with an engine which will revolve in flight. This will allow it to ascend without complex, costly fuel pumps, and rely on centrifugal force to drive fuel to its engines. The vehicle will be slowed to safe landing speed by helicopter-style rotors, deployed and controlled by the crew of two.

Kelly Space & Technology
● The Astroliner: A single-stage manned RLV. Towed aloft by a conventional airliner, it will ascend under rocket power to almost 100 miles, from where the payload will be delivered with a boost from a small, expendable rocket engine. The craft will then descend in a glide and under power from two jet engines to land on a conventional airstrip.

Pioneer Rocketplane
● Pathfinder: A "space plane", capable of using conventional runways, the Pathfinder will take off under power from jet engines and reach payload delivery altitude after having the liquid oxygen tanks for its rocket motor charged by a mid-air refuelling aircraft. Like the Astroliner, this craft may also be used for high-speed cargo delivery on earth.



Unocal to pay $44m in pollution deal

By Christopher Parkes in Los Angeles

Unocal, a leading Californian oil producer, is to pay penalties of $44m in part-settlement of one of the most extensive and most expensive oil pollution incidents in the state's history.

The company, which recently undertook to pay $18m to dig up and rebuild the centre of Avila Beach, a central coast seaside resort town affected by 40 years of leaked oil and chemicals, will also pay an undetermined amount to restore and rehabilitate land and water resources in the nearby Guadelupe oil field.

Environmentalists claim the total could exceed $200m, although Unocal has not published its estimates and said it was premature to speculate on the ultimate cost of a project which would last well into the next century.

This week's agreed settlement, which has still to be approved by a court, followed six years of investigations and legal wrangling which began after an informant told state authorities of pipeline leaks which were believed to have been releasing millions of gallons of pollutants underground since the 1950s.

Production at the Guadelupe field ceased in 1994, when the tank farm and pipelines responsible for the pollution of the Avila Beach resort were closed.

Unocal said it had received insurance settlements from unrelated claims which would be put towards the cost of the clean-up and added to existing damage reserves.

Dan Lungren, state attorney-general, said the settlement was "possibly the largest" in state history. Mr Lungren, Republican candidate for the state governorship, added that he intended to hold Unocal to its promises to remove the hazards.

The previous record penalty was the $40m agreed payment by the Southern Pacific railroad after a trainload of pesticides was spilled into the Sacramento River in 1991.

Restoring the Avila Beach resort, which includes demolishing much of the centre and digging up and replacing polluted subsoil, is expected to take two years to complete.

However, restoration work on the Guadelupe oil field is expected to take far longer as engineers work to excavate the worst-damaged areas and attempt to clean up others by injecting "oil-eating" bacteria into the ground.

According to some estimates, between 8m and 20m gallons of oil and diluent – injected into the heavy crude to ease its extraction – escaped from leaks first discovered in 1989.

NEWS DIGEST

GENERAL ACCOUNTING OFFICE REPORT

IMF 'would have $75bn after Russian bailout'

The General Accounting Office, the investigative agency of the US Congress, is today expected to say that the International Monetary Fund would have $75bn in lending capacity even after disbursing $22bn for its Russian bailout.

The GAO was asked by Senator James Saxon, Republican chairman of the joint economic committee, to audit the IMF. Mr Saxon, a critic of the IMF, has been pushing the Fund to release more information about its economic state and lending programmes.

Congressional Republicans are so divided over President Bill Clinton's request for $18bn for IMF funding that the party's leadership has decided to put the matter on hold until September. The administration wants the money in case further assistance is needed to prevent the Asian economic crisis from spreading.

"In a couple of months we will have a better understanding about the severity of the crisis in Asia," said Congressman Bob Livingston, chairman of the appropriations committee.

Under pressure from business, Newt Gingrich, House speaker, has tried to push the IMF bill through the House. But he has been hindered by his chief lieutenant, Dick Armey, the majority leader, who seems willing to give $3.4bn for a new emergency fund, but little more. **Nancy Dunne, Washington**

PARTS PLANT STRIKES

GM and unions in arbitration

Lawyers from General Motors, the largest US car and truck maker, and the United Auto Workers union yesterday appeared at arbitration hearings to determine the legality of two strikes at spare parts plants in Michigan. The strikes have crippled GM's North American production.

GM contends that they centre on national issues, such as investment plans, and are therefore in breach of the UAW-GM agreement which permits strike action only over narrower local issues, such as health and safety conditions. If the independent arbitrator – a California-based attorney – was to find in GM's favour, the carmaker could obtain a "back to work" order and seek damages against the union.

However, the union maintains it is confident of winning the legal tussle, and many legal experts agree it probably has a good case. **Nikki Tait, Chicago**

CANADA BUSINESS CONFIDENCE

More investment planned

Canadian businesses continued to show confidence in prospects for economic growth, and plan to boost investment sharply this year. Total business and government investment in plant and equipment is expected to grow by 6.6 per cent in 1998 to C$125.4bn (US$85.3bn), according to the latest survey of investment intentions. This is C$2bn higher than February's survey intentions, and marks the fifth consecutive year of solid gains. But the increase will be less than last year's record 12 per cent surge in investment.

Manufacturing capital investment is expected to grow by 8.2 per cent, led by chemicals, electronics, electrical utilities, pipelines and transportation. Declines are forecast in the oil and natural gas industries, primary metals, paper and transportation equipment.

Despite another strong increase, manufacturing investment this year will barely recover to its 1989 level, which was followed by a deep recession. **Edward Alden, Toronto**

ELECTRICITY PRIVATISATION

Colombia power sale today

The second big sale of Colombia's electricity distribution companies takes place today as part of the government's electricity privatisation programme. Some 19 international and domestic companies are bidding for a 65 per cent stake in the two distribution arms of Corelca, which supplies electricity to 1m customers on the Atlantic coast.

The two distribution companies supply 15 per cent of Colombia's electricity demand. Next week President Ernesto Samper's administration will sell Corelca's generation and transmission outfits. The companies' total value is unclear but analysts estimate it at $500m-$1bn.

Corelca's distribution inefficiencies are notorious. Estimates suggest that the distribution companies receive income only equivalent to half the amount of electricity they supply. But experts say the problems should provide investors with significant opportunities. **Adam Thomson, Bogotá**

ECUADOR CABINET

Mahuad names economic team

Ecuador's President-elect Jamil Mahuad yesterday announced that Fidel Jaramillo, a former head of the country's central bank, would be finance minister when the new government took office on August 10. He also confirmed that Patricio Ribadeneira, a civil engineer and former president of the state oil company, would be energy minister. He named Hector Plazas, a business leader from the port of Guayaquil, as industry minister.

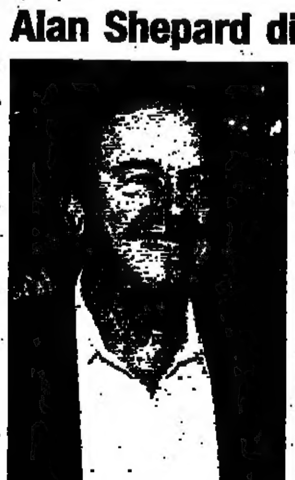
The appointments were announced shortly after Jeffrey Sachs, the Harvard economist best known for his work advising Latin American governments, met the new economic team. "We have asked for his help and advice in the analysis of the government programme," said Mr Mahuad.

"We have reviewed the economic situation, which is serious and difficult," said Mr Sachs, director of the Development Institute of Harvard University, where Mr Mahuad graduated.

Mr Sachs recommended the government should address the critical issues of the budget and reconstruction of parts of the country devastated by the El Niño weather phenomenon. The government will inherit a fiscal deficit of 5.6 per cent of GDP and El Niño has caused more than $2bn of damage to Ecuador's coastal region. **Justine Newsome, Quito**

FIRST US ASTRONAUT

Alan Shepard dies at 74



Alan Shepard (left), the first American in space, died on Tuesday night aged 74. Mr Shepard launched the US manned space programme when he became the first US astronaut in space on the Freedom 7 in 1961. The flight lasted just 15 minutes, but earned him a place in history.

Born in New Hampshire, he was a star Navy pilot before Nasa chose him as one of its original seven astronauts. For years Americans knew the names of all seven by heart.

Because of an inner ear disorder, Shepard was earthbound for the rest of the 1960s. NASA appointed him Chief of Astronauts, and he was responsible for training recruits. After surgery, he returned to space to become, in 1971, the fifth man to walk on the moon. **Victoria Griffith, Boston**

هكذا من الاصل

US, Pakistan tight-lipped over nuclear treaty talks

By Farhan Bokhari in Islamabad

US and Pakistani officials were tight-lipped last night as Strobe Talbott, US deputy secretary of state, ended his official meetings on a mission to nudge Pakistan into signing the Comprehensive Test Ban Treaty (CTBT).

Mr Talbott is due to leave Islamabad for Washington today after visiting both India and Pakistan to convince the world's newest nuclear powers to accept international safeguards.

He was quoted last night as saying the US wanted to work with Pakistan for peace and stability in the region. Privately diplomats and senior government officials in Islamabad said the talks must have covered the extent to which Pakistan would benefit from signing the CTBT.

On Tuesday officials in Washington said the US would abstain from a vote on International Monetary Fund assistance to Pakistan, crucially needed to sustain its fragile economy and stave off a debt crisis. Pakistani officials have said the country is close to default on its $42bn foreign debt, which they said was the result of uncertainty caused by western economic sanctions led by the US.

In recent weeks equity prices on the Karachi stock exchange have plummeted, falling in some cases by as much as 50 per cent compared with six months ago.

One diplomat said that Mr Talbott's initiative was probably linked to "demonstrating to Pakistan that signing the CTBT would help to not only stave off the debt crisis but add a lot more to its economy".

However, a senior government official said "the incentives linked to the CTBT are meaningless unless they are backed by security guarantees". He was repeating the official view that unless Pakistan's conventional defence is bolstered to face the much larger force of neighbouring India, it cannot afford to give up its nuclear option.

On IMF lending, officials said the government would have to seek a larger package than the agreed $1.6bn over three years, put in place in November.

Pakistan is due to receive just over $500m in the next 12 months.

However, one official said the gap for external resources had widened to $1.5bn-$2bn, which required a combined effort by the Fund and other multilaterals to step up their funding in the short term.

Missiles are 'fully operational'

By Simon Henderson

Pakistan's deterrent force, based on the Ghauri missile tipped with a nuclear warhead and with a range of 1,500km, is "fully operational", according to the architect of the country's nuclear weapons programme.

In an interview in Islamabad, Abdul Qader Khan said no more nuclear tests were needed and there were no technical and scientific reasons why Pakistan could not sign the Comprehensive Test Ban Treaty (CTBT).

The missile was test-fired in April and is now in full production at a specially built plant at Kahuta, near Islamabad, according to Mr Khan.

Pakistan's nuclear tests in May, conducted two weeks after India tested five atomic bombs, led to US sanctions on New Delhi and Islamabad. Strobe Talbott, US deputy secretary of state, was in Pakistan for talks yesterday.

Some western experts are sceptical about the success of both countries' tests, since seismological evidence suggested smaller explosions than claimed. However, they have concluded the tests probably did advance both countries towards being able to place nuclear warheads on missiles.

Mr Khan reiterated the official Pakistani position that five bombs were tested on May 28 and another on May 30. He showed a video of the first explosion, in a tunnel under a mountain in the western province of Baluchistan.

In footage of the May 30 blast, conducted in an L-shaped shaft under the desert 100km away, the desert floor could be seen heaving by several metres.

Mr Khan said the first bomb was the size of a *kharbuza* (Urdu for watermelon), indicating with his hands it was about 2½ feet across, and had an explosive power equivalent to 35 kilotons of high explosive. The May 30 bomb, "suitable for being carried by either aircraft or missiles", was smaller, about 8 kilotons.

A separate video, of a ground test and the sole flight test of the Ghauri missile, included specifications showing it was about 16m long and 1.25m in diameter. The empty warhead landed 600m from its target.

Mr Khan described as "sheer propaganda" reports that Pakistan had obtained help in bomb design from China and missile technology from North Korea. "Pakistan would definitely not be a party to the spread of nuclear weapons."

Pakistan also claims to be developing a 600km range missile, the Shaheen. Although Mr Khan said tests had not been conducted so far, other officials said a planned firing 15 minutes before the Ghauri's April test was a failure.

Simon Henderson is editor of the FT Middle East Energy newsletter.

NEWS DIGEST

EXPORTS TO ASIA FALL

Japanese trade surplus continues relentless rise

Japan's politically sensitive trade surplus rose in June by 27 per cent, year on year, the 15th successive monthly increase.

For the first six months the surplus climbed 66 per cent from the same period a year earlier, to Y6,570bn ($47bn). The contentious surplus with the US rose 37.7 per cent to Y3,070bn in the first six months. In June it jumped 48.6 per cent.

Analysts expect the rise in the surplus with the US to moderate in the medium term as US demand weakens. However, they said Washington was likely to persist with demands that the new Japanese prime minister, who will emerge tomorrow, acts to boost domestic demand and cut the surplus. Although June's overall trade figures were below expectations, the surplus would continue to rise as long as the troubled domestic economy lacked an appetite for imports, they said.

Japanese exports to Asia remained a casualty of the regional crisis, with exports falling 15 per cent in yen terms in the first half, compared with a year earlier. However, this was the smallest decline in three months and prompted one economists to suggest there were "signs of bottoming out". The surplus with European Union countries continued to rise, climbing 89.7 per cent in the first half.

Tomoko Fujii at Salomon Smith Barney said the fall in exports to Asia was evidence of how little Japan was doing to revive the regional economies. The smaller than expected overall surplus reflected the deterioration of the yen, which increased import prices, she said. **Khozem Merchant, Tokyo**

TELSTRA SELL-OFF

Canberra bows to pressure

The Australian government has said it will sell no more than 49 per cent of Telstra, the telecoms group, until an independent inquiry proves that the company's services to the community are adequate. Bowing to community pressure from voters in regional areas as well as politicians in its own ranks, the ruling Liberal-National party coalition announced yesterday it would only seek to sell a further 16 per cent of Telstra – which would leave it with a majority 51 per cent stake.

Earlier this month the Senate blocked legislation which would have allowed the sale of the remaining two-thirds of Telstra for about A$50bn (US$31bn). **Russell Baker, Sydney**

FOREIGN EXCHANGE

Chinese reserves fall

China's foreign exchange reserves fell last month despite a continued rise in the trade surplus, suggesting companies are holding on to hard currency earnings as a hedge against a possible devaluation. Foreign exchange reserves stood at about US$140.5bn at the e[illegible] of June, compared with US$140.9bn a month earlier, according to officials. Although China's reserves are the world's second largest, their rapid growth has slowed sharply this year.

With the trade surplus in the first five months of this year reaching almost US$20bn, economists in Hong Kong said the stagnation in foreign exchange holdings suggested trading companies were retaining foreign currencies rather than selling funds to banks. Such moves suggest increased concern that China will be forced to devalue in the wake of Asia's financial crises, despite government pledges that the stability of the renminbi will be maintained.

The growth of reserves is expected to resume as trading companies in China reach their quotas for permitted hard currency holdings. **John Ridding, Hong Kong**

Hubert Neiss, IMF director, arriving in Indonesia yesterday. He said another $1bn of IMF credits would be disbursed next month

Indonesia on track for debt rescheduling

By Sander Thoenes in Jakarta

Ginandjar Kartasasmita, Indonesia's minister for economy, finance and trade, yesterday said Indonesia had gained initial approval from donors to reschedule $1.25bn in sovereign debt principal.

The World Bank, Asian Development Bank and Japan offered the country $1bn each in new loans rather than debt roll-overs, while Australia and China offered $300m each and the IMF added $1.35bn to its credit line, bringing its contribution to $11bn.

Together the rescheduling and new loans should close an expected $6.2bn hole in the budget when they were approved at a donor meetings at the end of this month, Indonesian officials and diplomats said.

The government of President B.J. Habibie has also welcomed loan disbursements by the IMF, World Bank and Asian Development Bank, offers of technical assistance, trade credits and a flurry of food donations and loans. Hubert Neiss, IMF Asia-Pacific director who arrived for a monthly review yesterday, said another $1bn of IMF credits would be disbursed next month.

At least as important for Indonesia's economy are indications that foreign investors are showing interest in buying stakes in Indonesia's state companies and banks. The minister for state enterprises, Tanri Abeng, confirmed reports yesterday that five foreign companies had shown interest in a government stake in Aneka Tambang, the mining company that went public last year.

Mr Tanri has received a bid, by Cemex of Mexico, for a government stake in Semen Gresik, and is expected to receive at least one counter bid for the cement producer before the deal is finalised in early August.

Farid Harianto, deputy director of the Indonesian Bank Restructuring Agency, said yesterday that foreign and domestic investors were looking seriously at some of the 54 troubled banks taken over by the agency.

"Surprisingly, the interest is still there," he said.

Mr Farid admits his agency has done little to make these banks attractive to investors in its first six months of operation. He said the agency lacked the legal power to dispose of bank assets and liabilities and had failed to do much until Mr Habibie took office in May.

Mr Farid said his agency gained momentum this month, drafting laws and changing focus by offering help to sick banks and to relatively healthy banks at risk of illiquidity. But he would not name the number of banks formally under the agency, effectively acknowledging it did not control the banks it took over.

Judging by the outstanding central bank loans to the banks, which rose to Rp138,991bn ($10.3bn) last week, the agency has made no headway in persuading owners to pay their dues and rescue their banks. This sum equals more than half this year's budget, and more public funds will be needed to recapitalise banks and pay out deposits of any bank that is closed down.

The agency has also missed a deadline, agreed with the IMF, for presenting a rescue plan for the first six banks it had audited. Several other reform pledges made by Mr Habibie's government, such as presenting a shortened list of industry sectors closed off to foreign investors, are overdue as well.

"The government is more preoccupied with politics than economics," said Sri Mulyani Indrawati, a prominent economist. "They just want to be popular."

Hainan bank closure sounds warning bell

James Kynge on a provincial crisis with worrying portents for the Chinese financial system

Hainan harbour: Bankers and officials say the province is in the throes of a financial crisis Corbis

China's southern Hainan province, touted in the early 1990s as having the economic potential of Taiwan, is in the throes of a financial crisis, bankers and officials on the island say.

Confidence has been shaken by the closure last month of the Hainan Development Bank (HDB), the main banker to the provincial government, and many non-bank financial institutions on the island are suffering sustained runs on deposits. Some may collapse and several are likely to be closed.

Analysts say the buccaneering island of Hainan, almost a byword for lawless excess, cannot be seen as representative of China's financial health, but it nevertheless serves as a warning of how crises among grassroots institutions can shake the country's larger financial architecture.

"Hainan's... experience will test the confidence of depositors," says Dong Tao, economist at Credit Suisse First Boston in Hong Kong.

The causes of the crisis can be traced to wildly unrealistic expectations aroused by official statements in the late 1980s that the island off China's south-west coast could become a free trade zone and financial centre. Gross domestic product in 1992 grew by 40.2 per cent before falling back to 4.3 per cent in 1995 as a spectacular property bubble burst.

More than 30 credit co-operatives that mushroomed across the island had to offer progressively higher – and illegal – deposit rates (up to three times those of state banks) to attract sufficient funds to compensate for dwindling returns from real estate investments.

The game was up early this year when the head of one credit co-operative disappeared with his depositors' money.

Runs on other co-operatives forced the authorities to take action but, instead of closing the co-operatives, they ordered HDB to assume their liabilities. The burden was heavy; about half Hainan's total deposits, or RMB33bn ($4bn), had been put into the co-operatives but more than 60 per cent of the funds could not be traced, bankers and officials in the province say.

The burden added to already high levels of non-performing assets in HDB and forced the bank to close. One of China's "big four" state banks, Industrial and Commercial Banking Corp, has been instructed to pay HDB creditors – compounding the problems of a bank already knee deep in non-performing assets.

The fall-out from the HDB episode is spreading. Executives in several of about 20 trust and investment companies on the island say depositors have been steadily withdrawing money since HDB's closure. "We have been seriously affected by the fall of the Hainan Development Bank. Our depositors are afraid," says an executive at Hainan International Trust and Investment Corp.

Local bankers say several international trust and investment companies (ITICs), which issue debt in overseas markets, may default on payments to foreign creditors unless the government – or other banks – steps in to assist them. An executive at Hainan Saige International Trust and Investment Corp says they have been banned from offering high interest rate deposits but will still do so under a "private arrangement".

Reports from Hong Kong say Guangdong Overseas Chinese Trust and Investment Corp, an ITIC based in southern Guangdong province, missed payment this month of a US$14m principal to 16 creditor banks. Its representatives were reported as saying the payment could not be made because of technical difficulties.

There are 244 ITICs throughout the country, says an official with the People's Bank of China, the central bank. Although some, such as China International Trust and Investment Corp, are believed to be well run, bankers say the general health of this tier in the financial superstructure is questionable.

Many smaller, provincial ITICs engage in much the same type of business as hundreds, perhaps thousands, of credit co-operatives across China. They offer high deposit rates and invest the proceeds in property or infrastructure ventures, assuming a rate of return based roughly on China's rapid growth over the last five years.

But China's 7 per cent expansion in the first half of the year is far from uniform across the country; some provinces such as Gansu, Ningxia, Heilongjiang, Shanxi, Jilin, Liaoning and Henan are experiencing much lower growth rates.

Clean-up operations have started in some regions. Officials in Jilin province in the north-east say it will take three years to resolve the bad debt problems of local credit co-operatives. In Beijing officials have indicated the axe may be about to fall on several ITICs.

But if the Hainan model is applied to future financial failures, then it is China's 22 banks – and ultimately the big four – which will have to foot the bill. The strain of this could further slow key reforms in the state banking sector and impair banks' ability to lend to the real economy. Problem loans already account for about 20 per cent of the big four's assets.

"This is why Zhu Rongji [Chinese premier] wants 8 per cent growth this year. If there is a big slowdown, there could be a financial crisis," says Jiang Jian, a manager at the Fudao Investment Fund in Hainan. "It is like keeping a river in flood so that you cannot see the rocks below."

Eurofighter tempts Norway in bid to win key contract

By Alexander Nicoll in Munich

Norway has been offered a partnership in the intergovernmental buying agency handling the procurement of the Eurofighter if it agrees to buy the aircraft in preference to the US F-16.

Brian Phillipson, managing director of the Munich-based Eurofighter consortium of companies building the aircraft, said membership of Netma (Nato Eurofighter and Tornado Management Agency) would ensure Norway was viewed as a full partner, receiving upgrades of Eurofighter's software and access to other improvements.

"What's being offered is full membership of that club," Mr Phillipson said. Britain, Germany, Italy and Spain, the four partners planning to buy the aircraft, are keen for it to win export orders.

Norway is a key test of Eurofighter's export potential, as Norway's needs put the Eurofighter in a head-to-head battle with the Lockheed Martin F-16, of which the Norwegian air force already has 58 in service.

It emerged yesterday, however, that Oslo will have funds in its budget to buy only 20 to 30 aircraft instead of the 40 it had planned. A Norwegian official said he doubted the government would decide between the competitors next year as it had intended. He did not know when a decision would be made.

Mr Phillipson said: "Technically, Eurofighter is very well positioned. But it will not be easy for the Norwegians not to buy American." There was confusion about exactly what version of F-16 was being offered by Lockheed, he said.

He played down the significance of the F-16's recent winning of a contest in the United Arab Emirates, saying Eurofighter's schedule would not have allowed it to produce aircraft in the timeframe which the UAE wanted.

The consortium partners – British Aerospace, Daimler-Benz Aerospace of Germany, Alenia of Italy and Casa of Spain – are tooling factories to build 620 aircraft. The first will be delivered in 2002.

Eurofighter is aiming to win at least half the export market for fighters, which it estimates at 800 aircraft between 2005 and 2025, with a value of $70bn, excluding those bought by its four partner nations and the US, Russia and China.

Mr Phillipson said that, apart from Norway, the most immediate targets were Australia, which may require up to 80 aircraft to replace its F-111 fleet, and Greece, which wants 30-60 aircraft in the shorter term and more later.

Eurofighter has organised its marketing efforts so that one of its member companies takes the lead in selling to each country.

Dasa is the lead for Belgium, Czech Republic, Denmark, Greece, Hungary, the Netherlands, Norway and Poland. BAe is targeting Australia, Bahrain, Canada, Kuwait, Malaysia, Saudi Arabia, Singapore, and the UAE. Alenia handles Brazil, the Philippines and South Africa, and Casa is the lead for Chile, South Korea, Thailand and Turkey.

Mr Phillipson emphasised, however, that many of these were longer-term possibilities and Eurofighter was aiming to build an export customer base over the next quarter century rather than seeking to make quick sales.

The Eurofighter under development. The European consortium's aircraft is in head-to-head battle with the Lockheed Martin F-16

NEWS DIGEST

INVESTMENT IN VIETNAM

UK oil group winds down after drilling disappoints

Enterprise Oil of the UK is to close its representative office in Vietnam, a move which reflects declining foreign interest in future development prospects in Vietnam at current oil prices. Enterprise was one of the first foreign companies to begin offshore exploration work in Vietnam, but seven wells drilled in two blocks failed to yield commercially viable deposits and the company relinquished its offshore acreage last year.

Enterprise, together with Mobil, is, however, continuing negotiations with state-owned Petrovietnam on a potential interest in block 9-2, adjacent to Vietnam's main 180,000 barrels per day White Tiger (Bach Ho) oil field off the port of Vung Tau.

Bids for the acreage and three neighbouring blocks were first called for in 1995; rather than using conventional production sharing contracts, Vietnam has opted to seek to create joint venture exploration companies with the interested foreign companies for each of the available blocks. Petrovietnam officials recently indicated that an agreement on 9-2 would be in place before the end of the year.

Enterprise's decision to close its Hanoi office follows the withdrawal of Texaco earlier this year. In March Canadian Petroleum announced it was relinquishing two offshore blocks, and closing its offices in Ho Chi Minh City.
Jonathan Birchall, Hanoi

US DUMPING DECISION

Wire rod exporters found guilty

Companies from Japan, Germany, Taiwan and four other countries have been found guilty of dumping stainless steel wire rod in the US market at prices between 3 and 34 per cent below fair market value.

The Commerce Department decision was announced by William Daley, the department secretary, who rarely makes such appearances for dumping cases. He said the decision was based "strictly on facts".

The case now goes before three commissioners at the International Trade Commission. Two of the three are considered likely to find that US companies have been injured. Once an injury finding is made, dumping duties are imposed. Other companies found guilty of dumping are from South Korea, Italy, Spain, and Sweden. Three Japanese companies – Daido Steel, Sanyo Special Steel and Sumitomo Electric – will have dumping duties on some of their products of 34.21 per cent.
Nancy Dunne, Washington

SUBMARINES CONTRACT

Turkey signs German deal

The Turkish ministry of defence yesterday signed a DM996m ($560m) deal to build four submarines in partnership with Howaldtswerke Deutsche Werft (HDW) of Germany.

The 1,400 tonne Preveze class submarines will be completed between 2003 and 2006. Ismet Sezgin, defence minister, said HDW would manufacture the parts to be assembled by Turkish engineers at the Golcuk dockyard. The minister said the deal illustrated the importance Turkey attached to modernising its navy. Ankara has purchased DM6bn of submarines, frigates and assault boats from German companies since 1973. **Christopher de Bellaigue, Istanbul**

Risks of EU link with Mercosur 'exaggerated'

By Neil Buckley in Brussels

Claims that a free trade pact between the European Union and five south American countries could seriously damage European agriculture were yesterday dismissed as scaremongering by the EU's chief of Latin American relations.

The spirited defence of the plans by Manuel Marin, EU commissioner responsible for the region, came as the 20 European commissioners approved a negotiating mandate for the proposed deal with Mercosur, the Latin American trade pact. The plan received majority support after a heated 2½ hour discussion.

An EU agreement with the Mercosur countries of Brazil, Argentina, Paraguay and Uruguay, plus Chile, a Mercosur associate, would create the world's largest free trade area.

Despite clearing the Commission, the negotiating framework will face great difficulty getting the necessary unanimous approval from EU trade ministers. France has already circulated a paper warning that a deal would have "major risks in the agricultural sector".

An internal Commission report warned that the EU would have to pay up to $15bn a year to compensate farmers for the effects of opening the EU market to cheap Latin American imports. Mr Marin insisted the impact had been exaggerated.

"Over the last two weeks people have been waxing dramatic and sounding notes of alarm which are really not justified," he said.

Mr Marin said the negotiating mandate excluded the most sensitive agricultural sectors – cereals, beef and sugar. But it would still meet World Trade Organisation rules by covering 90 per cent of trade between the two sides.

Conceding that negotiations would be long, Mr Marin said any deal would not take effect until the next century and so would not encroach on the EU's Agenda 2000 programme of agricultural reform.

Four commissioners – Franz Fischler, the Brussels agriculture chief, French commissioners Edith Cresson and Yves-Thibault de Silguy, and Padraig Flynn of Ireland – signed a declaration opposing the mandate.

They said the Commission had more urgent priorities and warned of the possible impact of the deal on the EU's traditional partners – in eastern Europe, the Mediterranean, and the 70 African, Caribbean and Pacific countries.

Pipeline cost dispute may hit Azeri oil development

By Carlotta Gall in Baku and Robert Corzine in London

Azerbaijan will refuse to pay for cost overruns on the refurbishment of the oil export pipeline linking Baku with the Georgian Black Sea port of Supsa.

President Heydar Aliyev, who is on an official visit to the UK, said yesterday the Azerbaijan International Operating Company (AIOC) – the first big international oil consortium in the country – would have to come up with additional financing.

A failure to resolve the argument over the western pipeline could delay the main development phase at AIOC's Caspian Sea oilfields and undermine investor confidence in Azerbaijan, say industry executives.

Contractors involved in the $2bn-$3bn Phase One development plan of the Chirag field are already dismissing staff because of a slowdown in the pace of development. Brown & Root, the UK engineering group, recently reassigned 30 of the 200 engineers working on the project in London because of the slowdown.

Companies tendering for Phase One contracts have been told not to expect work before January. "We have been told to expect a letter of intent maybe around November-ish," said one company official in Baku.

The argument centres on the spiralling costs of the pipeline. The original budget was $315m, but the poor state of line lifted the total cost to $590m. Under AIOC's production-sharing contract, it can recoup the full cost of the pipeline development.

Azerbaijan, however, believes AIOC should have done better feasibility studies. "There is some valid truth in that," admits a senior AIOC executive. The wrangle over how to cover the cost difference has led the government to threaten AIOC with arbitration, which could take between one and five years, damaging investor confidence.

An alternative to arbitration would be to open the pipeline to third party use, the fees for which would then be set off against the $275m overspend. AIOC has begun talks with oil companies working in other Caspian countries, such as Chevron and Mobil, who are seeking ways to export crude to western markets from respective projects in Kazakhstan and Turkmenistan.

Cost overruns and delays in developing Azerbaijan's offshore oil have become a growing concern to the government. It should see a big increase in oil revenues after 2003, but the next five years could be difficult.

SOUTH AFRICA ECONOMY FINANCE MINISTER PROMISES ACTION TO TACKLE HIGH UNEMPLOYMENT RATE

Manuel seeks to calm rand fears

By Greta Steyn in Johannesburg

Trevor Manuel, South Africa's finance minister, yesterday sought to calm fears in the wake of the rand crisis that the country would renege on its conservative policy promises, and vowed to deal with problems such as high unemployment.

Mr Manuel was addressing parliament in a special debate on the currency crisis. The markets gave a warm response to his speech, with the rand firming to R6.25 to the dollar afterwards.

Speculators started targeting the rand in May as sentiment cooled towards emerging markets. South Africa appeared vulnerable because of the low levels of foreign exchange reserves available to back the currency.

The rand has lost about 30 per cent of its value against the dollar this year. The central bank's intervention to protect the currency has resulted in an uncovered foreign exchange position of $22.5bn.

The rand hit its worst level of R6.75 to the dollar on July 6 as the markets reacted negatively to the appointment of Tito Mboweni, the labour minister, as governor of the Reserve Bank when Chris Stals retires in about a year.

Foreign investors regard the South African labour market as inflexible and bankers were pleased that Mr Manuel demonstrated an awareness of the problem.

"We are examining areas in which the policy framework can be strengthened. One such area is the labour market," the minister said.

The government had drawn up job creation proposals for a jobs summit between labour, business and government which reflected its commitment to addressing the unemployment problem.

Joblessness is officially 30 per cent and there are fears of a populist backlash unless the figure is brought down.

Mr Manuel was also emphatic that the Reserve Bank's independence would not be diluted. There have been fears of political interference in the central bank's activities, especially after the announcement of Mr Mboweni's appointment.

The finance minister reconfirmed the government's commitment to strict fiscal discipline, something which had led to clashes with the ruling African National Congress's allies in the trade unions and to debate within the party itself.

"We accept that we cannot forever spend more than we collect in taxes. The more money spent on meeting interest payments means that less is available for redistribution and transformation." For that reason the government had embarked on a difficult but necessary programme to reduce the deficit.

Mr Manuel failed, however, to promise that the budgeted deficit of 3.5 per cent of gross domestic product for the current fiscal year would be met.

UN team starts Algeria mission

By Roula Khalaf in Algiers

A high-level United Nations delegation arrived in Algiers yesterday on a difficult mission aimed at assessing the country's six-year conflict.

The panel of eminent persons, led by Mario Soares, the former Portuguese president, will meet government officials, political parties and representatives of civil society, and present a report to Kofi Annan, UN secretary-general.

While the UN's aim is to find out if and how it might help end Algeria's ordeal, the government sees the mission as a way of countering accusations of lack of transparency and of allegations by human rights organisations of complicity by elements of the security forces in killings.

In spite of a prickly attitude to foreign intervention in the conflict, the government invited the six-member panel to Algeria, and has promised it open access, except to members of the banned Islamic Salvation Front (FIS), the party which had been set to win cancelled elections in 1992.

Although the panel is expected to visit massacre sites, it will not conduct any investigation and has not included among its members human rights rapporteurs – both issues rejected by the government.

The delegation was yesterday treading carefully, avoiding public declarations which might set the tone for the visit. Algeria has said the panel's trip would be a one-off event, but would see follow-ups. Diplomatic sources in Algiers said the visit might be followed by a trip by Mr Annan to discuss the report with Algerian authorities.

The visit also follows a European Union mission earlier this year. European officials agreed to continue a dialogue with Algeria but failed to convince the regime to allow visits by UN human rights rapporteurs.

Iran president stays on top

By David Gardner, Middle East Editor

Mohammad Khatami, the reformist president of Iran, appears to have regained the initiative from hardliners in parliament, but will today learn whether his conservative opponents in the judiciary are prepared to risk confrontation by jailing one of his most valued allies.

The *Majlis* (parliament) yesterday endorsed as interior minister Abdolvahed Mousavi-Lari, formerly Mr Khatami's vice-president for legal and parliamentary affairs, although he publicly pledged to continue democratic reforms which led to the impeachment of his predecessor, Abdollah Nouri, last month.

Mr Nouri was critical of President Khatami's drive to win control of the Islamic Republic's levers of power following the reformist cleric's landslide election victory against the conservative and regime-endorsed speaker of parliament last year. He replaced all provincial governors – who control elections – and most senior civil servants, and in May started to legalise political parties, banned after the 1979 Islamist revolution.

Mr Mousavi-Lari, from the left of the Islamist spectrum, plans to continue authorising political parties and opposition rallies, and to hold municipal elections, probably early next year.

Conservatives have a slim majority in the 270-member *Majlis* but would probably be swept away if new parliamentary elections, scheduled for 2000, were held now.

Yesterday's vote, backing the new interior minister by 177 to 67 with 22 abstentions, indicates some doubt the wisdom of systematically blocking the popular Mr Khatami, who opinion polls says is supported by 85 per cent of Iranians.

The judiciary, answerable only to Ayatollah Ali Khamenei, the Supreme Leader under Iran's theocratic constitution, is likely to feel less constrained today in passing sentence on Gholamhossein Karbaschi, popular mayor of Tehran and chief strategist of Mr Khatami's stunning election triumph. Mr Karbaschi is accused of graft in what is widely seen as an attempt by Mr Khamenei to clip the reformists' wings. The mayor faces prison and removal from office, but there are signs of a compromise being worked out.

Netanyahu considers action to create jobs

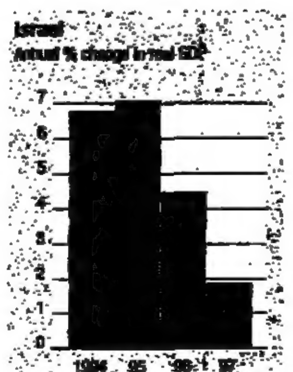
By Judy Dempsey in Jerusalem

When Benjamin Netanyahu, Israeli prime minister, enters the finance ministry today to discuss the 1999 budget, he will be seeking answers to two questions. When will the economy pick up and should the government increase spending to create jobs?

The questions are important because Mr Netanyahu, whose plan to introduce tax reforms and new health insurance payments was recently defeated by his own coalition partners, is in the second half of his four-year term. "He needs to show his supporters an improvement in unemployment and economic growth," said Daniella Finn, analyst at Ilanot-Batucha Investments.

Growth in gross domestic product is estimated at 1.5 per cent this year, down from last year's 1.9 per cent and the high growth rate of 7.1 per cent in 1995. It might grow 2.5 per cent in 1999, depending on unemployment, currently 8.5 per cent of the labour force.

The economy has slowed because the huge Russian immigration which fuelled growth during the 1990s has ended. Annual immigration has fallen from 200,000 in 1990 to an estimated 52,000 this year, forcing a decline in housing starts, from 85,000 in 1991 to around 40,000 this year. In addition tourism, worth $3bn a year, has fallen to $2.5bn because of last year's bomb attacks in Israel and the Iraq-UN stand-off early this year.



The economy is also in transition, finally moving away from a socialist-driven labour intensive economy to a more open economy with high-value added exports. The high-tech, medical and commercial sectors make up 34 per cent of exports.

To stem unemployment Mr Netanyahu's advisers want to provide extra government money to stimulate housing starts. Since the construction industry is one of the biggest contributors to GDP, they argue it would create more jobs and spur growth.

Finance ministry officials are sceptical. They argue that more spending should be earmarked for infrastructure projects and should come from current, not additional, expenditure. Their concern is that Mr Netanyahu might be tempted to loosen fiscal policy to create jobs even though he supports Yaakov Neeman, the finance minister, in reducing the budget deficit from last year's 2.8 per cent to 2.4 per cent this year and 2 per cent next year. Both are also committed to low inflation, estimated at 4 per cent this year compared with 7 per cent in 1997.

"Netanyahu has little room to manoeuvre," said one of his advisers. "His coalition will try to extract as many concessions as possible as he tries to find out today when the economy will turn around."

The timing of that turnround – along with the future of the peace process – could influence the election date.

NEWS DIGEST

MIDEAST PEACE NEGOTIATIONS

Israel asks US to help break talks deadlock

Israel yesterday asked Washington to help save peace moves with the Palestinians, admitting that negotiations remained stuck despite a three-day drive to revive the long-stalled talks. Yitzhak Mordechai, the defence minister said the help of US Middle East troubleshooter Dennis Ross and a three-way US-Israeli-Palestinian summit were both needed to break a 16-month deadlock.

"To the best of my understanding the gaps between us and the Palestinians are not great," said Mr Mordechai, who on Sunday led the Israeli team in the first high-level direct talks with Palestinians for months. It is necessary now that the highest level will take part from the United States, from the Palestinians and from the Israeli side," he said.

"What is required now is that a senior representative arrive from the United States, either the envoy Dennis Ross or even at a higher level, and close the gaps and reach an agreement that could move the political process forward."

Israeli-Palestinian peace teams met on Tuesday for a third negotiating session. But Yassir Arafat, the Palestinian leader, said his team had heard nothing new in the first two rounds of talks held at Washington's urging.

The talks revolve around a US proposal for Israel to hand back 13 per cent of the West Bank in return for Palestinian security guarantees. Benjamin Netanyahu, the Israeli prime minister, has resisted the US plan. Mr Arafat has accepted it.
Reuters, Jerusalem

KAZAKHSTAN INVESTMENT

EBRD may take bank stake

The European Bank for Reconstruction and Development (EBRD) may become a shareholder in Kazakhstan's Kazkommertsbank (KKB) after a recent $40M loan agreement, KKB said yesterday. It said the loan would be disbursed within three years in two tranches, each worth $20m, and the EBRD had the option of acquiring KKB shares for the first tranche.

Oleg Kononenko, head of KKB's international department, said the EBRD wanted to own less than 10 per cent of the bank's shares. "They (the EBRD) want to have no more than 10 percent, but the percentage may be even smaller, because. . . this will depend on the bank's authorised capital," he said. The loan is being used to finance medium and long-term projects in industry, transport, construction and services. **Reuters, Almaty**

JORDANIAN MONARCH

King Hussein may have cancer

King Hussein of Jordan has announced that doctors at a US clinic where had undergone medical tests suspected he had cancer which might require chemotherapy.

The 62-year-old monarch, one of the world's longest-serving leaders, has ruled Jordan for 45 years. Jordanian doctors said yesterday that he could start chemotherapy as early as next Tuesday if malignant lymphoma was diagnosed.

The king is at the Mayo Clinic in Rochester, Minnesota, where he was treated in 1992 for cancer and last year for swollen glands. Officials there confirmed that doctors were examining lymph node tissue for suspected lymphoma – a type of cancer which affects the lymphatic system.
Reuters, Jerusalem

صورة من الاصل

FINANCIAL REGULATION BANKS AND SECURITIES FIRMS TO FACE SAME CAPITAL TREATMENT

Rules on credit derivatives aligned

By George Graham, Banking Editor

Regulators from the Financial Services Authority and the Securities and Futures Authority have buried their differences and come up with a joint policy for assessing capital adequacy charges for credit derivatives.

The new policy means that banks and securities firms will face the same capital treatment for credit derivatives, a fast-growing family of contracts which allow the risk that a customer might default on a loan to be traded or protected.

The credit derivatives market has grown explosively, and banks are keen for regulators to treat these new products in a way which makes them a cost-effective means of managing their credit risks.

A recent survey by the British Bankers' Association found that the global market for credit derivatives grew to $170bn at the end of 1997 from an estimated $40-$50bn a year earlier. Banks expected a further jump to $350bn by the end of this year.

The new policy is one of the first concrete results of the government's efforts to bring financial regulation together.

The FSA has already taken over the supervision of banks from the Bank of England, the UK central bank.

The Bank of England had adopted a relatively conservative approach to credit derivatives, but will not take full statutory power over the securities industry from the SFA until new legislation comes into effect, probably in 2000. Regulators have been wrestling with the issue of how much protection a credit derivative gives against default.

"What regulators are really concerned about is tail risk – the low likelihood of a very large loss," said a senior London investment banker. "Their nightmare is that they give us regulatory relief, and it then turns out that we haven't transferred the risk."

The new rules, which will take effect for banks from September but still require formal consultation for securities firms, allow for a partial reduction in capital requirements on credit derivatives which do not match the original loan.

The FSA is also relaxing its treatment of cases where a bank holds a pair of credit derivatives which offset each other, but do not match perfectly. In future, banks will be allowed to calculate a single capital charge on one side of the pair.

International rules do not allow the FSA to go so far as to accept that the two positions cancel each other out.

But the new treatment is less onerous than the current rules, which require banks to calculate a risk charge for each side of the pair.

Matthew Elderfield of the International Swaps and Derivatives Association said: "We are pleased by the FSA's position."

Market values may be used to account for pension assets

A revolution in the way companies account for the UK's £600bn ($990bn) worth of pension assets edges closer today, with financial regulators proposing that market values should be used – bringing the UK into line with international practice, **Jim Kelly writes.**

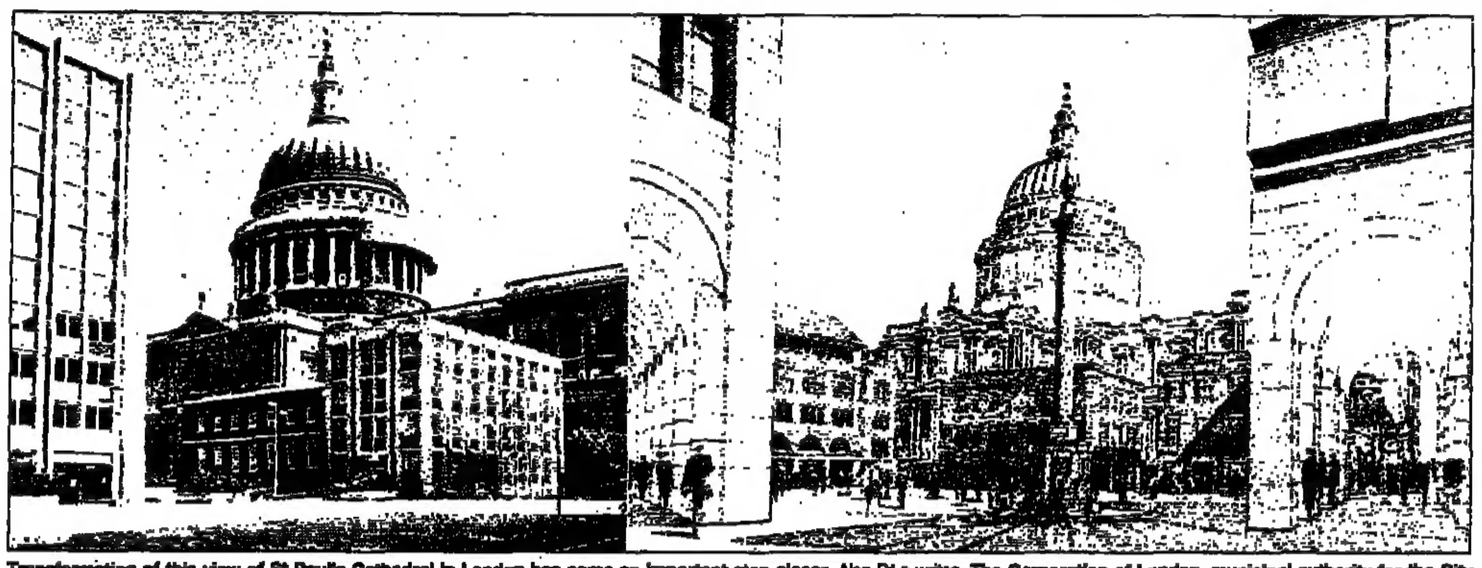
A discussion paper from the Accounting Standards Board signals the change to using the stock market – which some fear will introduce volatility into accounts – but proposes several ways to soften the impact.

The paper shows that the board, chaired by Sir David Tweedie, intends to bring the UK into line on accounting for pensions – but is prepared to go its own way to defend UK companies from violent profit swings.

"Some disagreements with the international approach remain and the board regards these as being such as to warrant the UK taking a different approach," said Sir David.

It will take at least two years to prepare a final binding standard on pensions.

International and US rules now state that the most objective and comparable method for valuing pension assets is to rely on the markets – although this is more likely to produce an imbalance with the liabilities.



Transformation of this view of St Paul's Cathedral in London has come an important step closer, Alan Pike writes. The Corporation of London, municipal authority for the City, the ancient heart of London, has given permission for the stark buildings of Paternoster Square (left) to be replaced by a development (right) that opens up the prospect of St Paul's. The scheme has been proposed by Paternoster Associates, owned by Mitsubishi Estates Corporation, under an overall plan by Sir William Whitfield, the architect

Nuclear company poised to win $7bn US deal

By Virginia Marsh in London

British Nuclear Fuels (BNFL), the state-owned nuclear fuel and reprocessing company, is in line to win the largest nuclear clean-up contract ever awarded by the US government, ahead of a rival US-French bid.

BNFL said yesterday it had agreed a contract worth up to $6.9bn with the US Department of Energy to clean up waste from atomic weapons production. BNFL, which will subcontract some of the work to Bechtel, the US engineering group, has won the contract ahead of a group led by Lockheed Martin, the US defence and aerospace group, and including Cogema, the French state-owned nuclear fuel company.

The contract – which is to remove radioactivity from 5.4m gallons of waste at the US's second largest former atomic weapons materials site – is in two parts. At the end of the first two year phase worth $350m, the US government has to decide whether to proceed with the rest of the project which is due to run until 2018.

However, it is legally required to clean up the waste and the company appears confident the government will proceed. The award underlines BNFL's leading position in the global nuclear fuel, clean-up and reprocessing market and comes just a month after its consortium agreed to buy the Westinghouse nuclear businesses in a deal worth about $1.2bn.

The contract, which is for the Hanford site in Washington state, will almost quadruple the size of BNFL's US business and more than double its 400-strong workforce there. Since it was formed in 1990, the company's US subsidiary has won nearly $2.5bn in contracts, mainly for similar work from US government departments. Until now, the single largest contract was worth about $1.2bn.

BNFL does not publish separate results for its US businesses but they account for the majority of its international operations which in 1996-97 provided £422m ($696m), a third of group turnover.

The deal will involve construction of a vitrification plant at Hanford at a cost of about $1.5bn. The UK company plans to arrange the financing during the first phase. The contract involves just a tenth of the 54m gallons of waste stored underground at Hanford which ceased to produce nuclear fuel for weapons in 1990. It is thought it could take up to 50 years to complete the site's clean-up.

BNFL – which runs the Sellafield nuclear complex in north-west England and is also in the process of merging with Magnox Electric, the operator of six ageing UK nuclear reactors – said none of the waste would be brought to the UK.

Both BNFL and the Lockheed Martin consortium were asked to look at the US project's feasibility in September 1996 and to submit proposals in January of this year. BNFL, which believes it won because of the technical superiority of its offer, was named preferred bidder in May.

NEWS DIGEST

ROYAL MAIL VENTURE

Post Office agrees joint enterprise with Dutch

The Post Office has agreed a joint venture with Selektvracht, a Dutch letters and parcels delivery company, in a bid to strengthen its position in the £20bn ($33bn) a year international postal market. But John Roberts, Post Office chief executive, accompanied the announcement with renewed warnings that the state-owned corporation urgently needed greater commercial freedom.

"The Post Office has got to join the race to develop new facilities and make alliances with other companies, otherwise we will very soon find our room to manoeuvre in the market very limited," he said.

The initiative with Selektvracht, a wholly-owned subsidiary of Royal Nedlloyd group, has been secured under powers that allow the UK Post Office to enter joint ventures only on a limited scale. The Post Office's Royal Mail offshoot and Selektvracht will develop a mail sorting and processing facility at Utrecht. It will enable Royal Mail to offer international bulk mail customers in the Netherlands access to its worldwide delivery service.

Mr Roberts said the joint venture was typical of service facilities that eight post offices from other countries were already offering in the UK. **Alan Pike, London**

MILLENNIUM 'BOMB'

Warning of global output loss

Oxford Economic Forecasting, a consultancy, predicts that global economies may suffer a permanent loss of output of about 0.3 per cent of gross domestic product every year as a result of the need to divert resources into tackling the millennium "bomb" – the problem of computers failing to recognise dates with four digits from 2000.

The consultancy argues that despite this effort some disruption to economic activity is inevitable at the start of 2000. But it concludes that the overall cost of the disruption will not be more than 0.5 per cent of GDP for the first quarter of the year.

It calculates that the effect by 2002 of investment foregone in tackling the date problem will depress GDP in the US, UK and Japan by 0.3 per cent and 0.2 per cent in Germany. It will add between 0.1 and 0.2 per cent to consumer prices and push up employment. It says: "These effects may not appear particularly large. But 0.3 per cent of US GDP in 2002 still amounts to $30bn." **Alan Cane, London**

PENSIONS MIS-SELLING

Adviser is fined $412,000

Minet Consultancy Services, an independent financial adviser, was yesterday fined £250,000 ($412,500) by the Personal Investment Authority for failings linked to the pensions mis-selling review. It was also ordered to pay £11,000 in costs. The PIA said Minet had not devoted enough resources to resolving its mis-selling cases and had failed to monitor progress adequately for much of last year. It also failed to meet a deadline of completing 90 per cent of its priority cases by the end of last year.

The PIA has fined 101 companies more than £4m as a result of mis-selling. **Christopher Brown-Humes, London**

TOURISM

Visitors to UK spend $7bn

The number of visitors to the UK from other countries fell by 1 per cent to 9.4m in the first five months of the year but the amount they spent rose by 2 per cent to £4.3bn ($7bn), according to figures released by the Office for National Statistics yesterday. There was a 13 per cent increase in the number of UK tourists travelling abroad to 17.9m. They spent £6.8bn, 17 per cent more than the same period last year.

Meanwhile the English Tourist Board yesterday announced record visits and spending in England by UK residents, just two days before its expected abolition. Chris Smith, culture secretary, is expected tomorrow to announce the disbandment of the English tourist board by handing its responsibilities to regional boards. The board receives a government grant of £9.7m. The Wales and Scotland tourist boards, over which Mr Smith has no authority, will not be affected.

The British took 111m trips in England last year according to the board's annual report published yesterday, a 7 per cent rise over 1996. **Scheherazade Daneshkhu, London**

'ARMS TO AFRICA' AFFAIR

Minister hopes to stay on

Tony Lloyd, the Foreign Office minister at the centre of the "arms to Africa" affair, believes he will be cleared of any wrongdoing by the independent inquiry into the controversy. Officials in the Foreign Office's Africa section in London are also expected to be cleared.

Mr Lloyd, the minister responsible for Africa, refused to comment about the inquiry report, which is to be published on Monday. But according to ministers, Mr Lloyd hopes to retain his position in the government after the reshuffle of ministers which is also expected on Monday.

Robin Cook, the foreign secretary, has indicated that the inquiry, being conducted by Sir Thomas Legg, will exonerate ministers of any involvement in a conspiracy to supply arms to Sierra Leone. Sandline International, a British firm of military consultants which denies breaching a UN embargo by providing arms to the west African country, has claimed its activities had government approval. **Andrew Parker, London**

'Prelim' results may go online

By Jim Kelly, Accountancy Correspondent

Shareholders would be able to get preliminary company results at the same time as analysts and fund managers – possibly via the internet – under far-reaching proposals published today by the Accounting Standards Board.

The board's new rules, which are not mandatory but are backed by the London and Irish Stock Exchanges and the 100 Group of leading companies, are designed to underline the increasing importance of "prelims".

The revolution in information technology means that "prelims", which are the first indication to the markets of a company's performance ahead of full annual results, can now carry much more information than just a summary profit and loss account.

"Preliminary announcements are in many ways the key financial element of the annual reporting cycle and are relied on in the market to confirm or alter market expectations," said Sir David Tweedie, chairman of the board.

The board's statement of best practice urges companies to issue "prelims" within 60 days of the year-end. "This timescale is already achieved by many listed companies and should be a realistic, if challenging, target," said Sir David.

Last year, the quickest "prelim" announcement came from ICI, 37 days after year-end. The slowest was RMC at 100 days, although statistics provided by the Institutional Fund Managers' Association did not include every company.

The board's statement outlined the content that prelims might include:

- A narrative commentary on strategy and performance.
- A summary profit and loss account.
- A statement of total recognised gains and losses.
- A summary balance sheet.
- Summary cash flow statement.

The board also said prelims should include information on turnover and profit in the different segments of a company's activities. This information is almost always listed by users of accounts as the most valuable to outsiders.

LIBERAL DEMOCRATS SECRET TALKS WITH CHANCELLOR OF THE EXCHEQUER ON EURO

Party leader looks to coalition

By George Parker, Political Correspondent

Paddy Ashdown, leader of the pro-European Liberal Democrat party, last night gave the clearest indication yet that he hopes to lead the party into a coalition government with Labour after the next national election.

"I intend to lead this party through this parliament, through the next election, and into the next government – if that's all right with the rest of you," he said at a dinner to mark the tenth anniversary of his election as party leader.

Meanwhile it emerged that the Liberal Democrats have been holding secret talks with Gordon Brown, chancellor of the exchequer in the Labour government, and Treasury officials to discuss tactics towards a single European currency. The two parties are expected to fight shoulder-to-shoulder in a referendum on British participation in the euro.

Mr Ashdown said co-operation was "one essential ingredient" of a successful future for the Liberal Democrats, the third largest party in the House of Commons after Labour and the Conservatives.

"I promised at the last election that we would make the difference, and I am determined that we do," he said. "If that means working with others where it is sensible to do so, then that is what I intend to continue to do."

By speaking openly of leading his party into government, Mr Ashdown was confronting his membership with the real possibility of a coalition within the next three to four years. Even the most optimistic activist does not believe the Liberal Democrats will be able to form a government on their own after the next election.

Much now depends on whether Tony Blair, the prime minister, embraces electoral reform and campaigns for a change to a more proportional voting system for elections to the House of Commons. A referendum on the subject is expected next year.

Meanwhile, Mr Ashdown set his party the task of being an engine of new ideas. The approach will be typified by a new economics paper by Malcolm Bruce and Vincent Cable, in the Liberal Democrat Treasury team, which sets out new proposals on British participation in the euro, including an early referendum.

BMW offshoot to cut 1,500 jobs

By Andrew Bolger, Employment Correspondent

Rover Group will announce the loss of about 1,500 jobs today at its UK car plants and will blame the strength of sterling for the cuts.

Rover, which was taken over four years ago by BMW of Germany, also plans to buy more components made outside the UK. Last night, Rover declined to confirm reports that it would increase the use of overseas components from 15 per cent to 25 per cent, but said it would make an announcement after talking to trade union representatives today.

The move has been prompted by sterling's strength and comes after an internal review by Rover's management and failed efforts to persuade the government to listen to the plight of exporters – particularly manufacturers.

The Trades Union Congress has warned that the strong pound and high interest rates could cause widespread redundancies and company closures in the manufacturing sector.

The company, which produces Rover, Land Rover, Mini and MG models, will also ask its 40,000 UK staff to adopt more flexible working practices, which may include temporary lay-offs.

The job cuts come in spite of Rover announcing an expected increase in sales. They will send the most serious message to the government in recent months about the pound's impact on manufacturing and jobs. The pound has been trading around DM3 for more than a year, while most manufacturers say a suitable level would be DM2.60.

Rover last year produced 523,000 vehicles, including the highly successful Land Rover models, but in December ended production of the Rover 100 – the former Metro – which accounted for 40,000 units annually. Even with the help of the launch of a new version of the Land Rover Discovery at Birmingham, production this year is expected to be only about 10,000 units higher than last year.

Today's job losses will be partly offset by expansion at Rover's Cowley plant at Oxford. In May the group said it would need 1,000 extra production workers at Cowley to build its most crucial model for many years: the executive saloon – codenamed R40 – that will replace both its 600 and 800 large car ranges.

US example may be followed in effort to reverse long rise in crime

Causes as much as effects will figure in the fulfilment of one of Tony Blair's election pledges, says **Simon Buckby**

Before the last national election, one of the Labour party's famous five promises on its "pledge card" given to voters was to be "tough on crime; tough on the causes of crime". The Conservative government responded by issuing a "warnings card" of its own. "Labour would allow Britain's career criminals to get away with softer sentences," it claimed. Few career criminals, or indeed voters, would agree with that now.

On Tuesday, Jack Straw, the home secretary, capped 15 months of toughness and "zero tolerance" by allocating £250m ($412.5m) of his ministry's extra £3bn over three years to fund a "comprehensive, evidence-based crime reduction strategy". His target is to reverse the long-term trend, dating from the 1920s, of an annual 5 per cent increase in crime.

Recorded crimes in England and Wales fell by 8.8 per cent last year. The latest international crime victimisation survey reveals stabilising or falling crime rates in the first half of the 1990s after decades of increases, in nearly all the countries surveyed. The question is: why? Understanding the answer might help the home secretary meet his target.

To help fulfil Labour's election pledge, Mr Straw said: "For many years governments concentrated too much on the consequences of crime to the detriment of its causes. But we can only make a long-term impact on crime and disorder by concentrating on both."

The government is seeking to explore the issue in Home Office research, published this week, into anti-crime measures around the world over the past 50 years. "This report is a pivotal step towards developing an effective crime reduction strategy for the next decade," said Mr Straw. "The fall in crime levels claimed by the most promising approaches in this report show that the long-term reductions in crime are both realistic and could be substantial."

The report highlights a US pre-school home-visit programme, involving black children from families of low socio-economic background, which demonstrated a 40 per cent cut in arrest rates by the time the children were aged 19. A cost-benefit analysis showed a $7 return, mainly in reduced costs to victims and the criminal justice system, for every $1 invested. The UK government has concluded that it is possible to promote a less criminal society through "intensive interventions among children and families at risk". Family policy and education are likely to receive even more government attention.

The report says more than half of property crimes and more than a third of property crime victims are found in a fifth of the communities in England and Wales.

Much evidence supports the government's claim that crime prevention is best achieved by targeting high-risk, usually socially excluded, areas. The report argues that such action, with measures against repeat offenders and police patrols of "hot spots", would cut national burglary rates by roughly 5 per cent.

The report accepts "criminal punishment can have a deterrent effect" but says that a 25 per cent increase in the prison population would be the effect of a 1 per cent fall in crime. It says no evidence exists that the switch from fines to community penalties over the past 20 years has had any impact on crime rates.

Mr Straw says that in opposition before the Labour party's election victory last year, he felt trapped by the need to appear as tough as the Conservatives. In government, he has lost that constraint, and has proved a capable hard man, introducing new court powers to impose children's curfews and punish the parents of young delinquents in an effort to cut the the estimated total of 7m crimes a year committed by juveniles.

Now he is turning more attention to the causes of crime, without fear that career criminals or the voters will think him weak.

Extra $11bn allocated to deprived urban districts

The government is to invest an extra £3.9bn ($6.4bn) in housing and £3bn for the regeneration of deprived areas over three years, in a concerted effort to tackle social exclusion and poor housing estates, **Simon Buckby writes.**

About £3.6bn of capital receipts, raised by municipal authorities through the sale of council homes [rented homes built and owned by municipalities] will be released to refurbish 1.5m properties over the next three years.

To marry the housing and regeneration programmes, in a bid for an "urban renaissance", the single regeneration budget is to be re-shaped. Some 80 per cent of its £2.3bn will be concentrated in the most deprived communities, funding 50 schemes before the next national elections due in 2002 at the latest.

In addition, £800m has been allocated to the government's "New Deal for Communities", designed to attract small businesses to poor areas, enhancing employment opportunities and reducing crime.

The news was welcomed by housing groups. Jim Coulter, chief executive of the National Housing Federation, said it is "good news for tenants in run-down council housing".

More money will come from a real terms increase in council home rents of 1 per cent next year and 2 per cent in each of the following two years. Legislation will give the government powers to take control of housing away from poor authorities.

INTERVIEW PAUL WALSH, PILLSBURY CHIEF EXECUTIVE

Master baker with recipe for raising profits

John Willman talks cookies, chapatis, innovation and value management with the man tipped inside Diageo to become the group's next chief executive

Paul Walsh is unashamedly upfront about his aim as chief executive of Pillsbury: he wants to make dough – and lots of it.

He is, of course, talking about the gooey stuff used to make the cakes, cookies, rolls and bread – the baked goods which have made the US food company's Doughboy an icon of American consumerism.

Every year, 70 per cent of US households buy at least one of the company's ready-mixed and ready-sliced products for final baking at home. Mr Walsh thinks it is not enough: "We want people to reach for our products on every shopping trip," he says cheerfully. "We want to infiltrate their pantries."

He is equally keen to make the other sort of dough – profits for Diageo, the UK food and drink group which owns the company. A keen exponent of managing for value, Mr Walsh has increased profits from $293m to $735m in the five years since he became chief executive, on sales up 80 per cent to $5.7bn.

"Pillsbury will be a principal contributor in achieving Diageo's aim of doubling total shareholder returns every four years," he says.

The Minneapolis-based company is in several food sectors with brands such as Green Giant vegetables, Old El Paso Mexican meals and Häagen-Dazs ice-cream. Most are regarded as mature categories in the food industry, but not by Mr Walsh.

"There are no mature markets, only mature marketeers," he says, quoting an adage of Sir George Bull, the joint chairman of Diageo who is credited with establishing Smirnoff vodka as a world-class brand.

Although Pillsbury has 45 per cent of the $3bn-a-year US market for prepared baked goods, for example, that is barely 5 per cent of all baked goods sales, which add up to $60bn a year.

So Mr Walsh is constantly pushing into new lines, such as ready-to-bake cinnamon rolls and breakfast snacks.

'We're one of the top three food companies globally in R&D expenditure'

He is convinced he can sell a lot more to consumers who want freshly baked goods without the effort.

And he has moved into the food-service business, supplying restaurants and caterers with dough-based products such as burger buns, pastries and pizza bases. They need Pillsbury products because in America's tight labour market they cannot get the staff to do their own baking.

"You have to think outside the box, think channels," he says. "You can't just pile it high and watch it fly any more. The average consumer buys food at 12 different outlets, from supermarkets to fast-food restaurants, and we have to reach them through each channel."

The company is also taking its dough technology abroad, wherever people eat grain-based products. In Mexico, Pillsbury makes tortillas; in Argentina, empanadas, the country's favourite pastries; in India, chapatis; in Brazil, pasta; and in China, dumplings and tasty dim sum snacks.

"We know dough," says Mr Walsh. "We can do anything with it: wrap it, cut it, stuff it – and all at phenomenal rates."

Behind this attempt to extend the Doughboy's reach is a $80m-a-year research programme, involving almost 600 scientists in the search for products. Pillsbury has raised its R&D budget from 0.7 per cent of sales in 1993 to 1.3 per cent of this year's much larger sales.

"Innovation is something we feel strongly about," says Mr Walsh. "We're one of the top three food companies globally in R&D expenditure.

"It comes over as a low-tech business, and it will never be rocket science. But if we want to play at the high value-added end of the market, we have to invest in high-tech plant, IT systems, marketing and innovation."

Innovation "inoculates" Pillsbury from the competition, says Mr Walsh, and has helped raise operating margins from 8.3 per cent in 1992 to 12.9 per cent this year. Some other US food groups have higher margins, but Pillsbury's sales and profit growth have comfortably outstripped most of them.

An Englishman who retains his distinctive Lancashire accent, Mr Walsh joined Pillsbury in 1989 when it was bought by Grand Metropolitan, the UK group which merged with Guinness last year to form Diageo. Under its new owners, Pillsbury pruned 600 of the 2,400 headquarters staff and sold non-strategic businesses such as Van de Kamp seafood, Steak 'n Ale restaurants and Alpo petfoods.

It even sold the flour mills, the company's original business when it set up shop on the banks of the Mississippi in 1869. "Pillsbury had once been the biggest miller in the world, but it had lost its competitive edge," says Mr Walsh. "Many people said if we sold the milling business we wouldn't get the right quality flour at the right cost. In fact we get better quality flour at lower cost."

That philosophy of focusing on what Pillsbury does best is part of Mr Walsh's commitment to managing for value. Profitable though milling was, the returns on the capital tied up in it were simply not enough.

He has done something similar with another of its businesses: Green Giant canned vegetables. The production has been contracted out to Seneca Foods, releasing $268m of capital and making a gain of $72m on the sale of six factories. "We just own the proprietary seed and handle the marketing."

Inside Diageo, Mr Walsh is the leading exponent of value management, the philosophy adopted for the merged group by John McGrath, its chief executive.

"What I find compelling about managing for value is that you can make it relevant for managers at plant level," he says. The company breaks down its objectives for generating economic profit into individual targets on cost, quality, service, people and the environment. This year executives' pay will be linked to these objectives for the first time.

"When making new investments, we can demonstrate we are spending the money to support our value growth objectives," says Mr Walsh.

Still only 43, he is tipped inside Diageo as the group's next chief executive when Mr McGrath retires. For now, he says he is happy making ever more dough for the world's consumers and his chief shareholder.

"There's a lot more to do at Pillsbury," he says. "But I would like to run a big company some time."

Raising their game: Paul Walsh and Doughboy aim to infiltrate your pantry

TECHNOLOGY LANDMINE CLEARANCE

Detectors for the masses

Marcus Gibson reports on a cheap and simplified device that can remove mines

Every 20 minutes someone is seriously injured by one of the approximately 100m-120m anti-personnel landmines that lie scattered in 70 countries around the world. Clearing them is a vast and expensive task, particularly for developing countries recovering from war.

Now a cheap mine detector that needs no batteries and is virtually maintenance-free has been developed by Chris Richardson, a UK radio engineer.

"The simple action of sweeping the detector plate from side to side over the ground stimulates a kinetic generator to produce enough energy to power the system," says Mr Richardson, who works at Siemens's Roke Manor research labs at Romsey, southern England.

An advanced radio scanner measures the ground's magnetic and electrical characteristics, and this enables the device to locate metal and plastic mines. By listening to the tone variations with headphones, buried ordnance can be quickly identified by an operator, who requires little training.

The device has a search plate with a lightweight printed antenna on a conventional, copper laminate printed circuit board. "We wanted to design... a cheap, ruggedised motion-powered machine that could be issued to everyone in a village," says Mr Richardson. "Our prototype could be built locally for about $25 each – and much less if produced in quantity."

Batteries are rare and expensive in war-torn countries and much demining activity has to take place in forested areas where solar power is unavailable. At the present rate of funding, experts say, it will take 1,000 years and $33bn to clear existing mines.

Siemens UK is now looking for an international aid agency which could set up a production line in countries such as Cambodia, Bosnia, Angola and Mozambique. Existing mine detectors are costly and sophisticated, and often require the involvement of highly trained, western operators.

Mr Richardson's simplified device, however, can quickly harness a large local workforce from the rural poor. An engineer with 25 patents to his name and who was awarded the OBE for military radio innovations for the UK's Ministry of Defence, he is upbeat about the detector's possibilities.

"There are 20,000 casualties from mines each year, or one every 20 minutes," he says. "I am convinced that this simple device, if mass-produced, could halve that rate if local manpower could be utilised for the job."

The motion-powered device can be cheaply produced

INTERVIEW LARRY BOSSIDY, ALLIEDSIGNAL

A question of the right mindset

Daniel Bögler and **Richard Waters** meet a chairman who leaves nothing to chance

When Larry Bossidy talks about green belts he is not thinking of trees and grass. The AlliedSignal chairman and chief executive officer is referring to Six Sigma – a programme for boosting quality that is spreading like wildfire through corporate America.

Six Sigma, which means reducing defects in a manufacturing process to virtually zero, is usually taught to workers by colleagues known as black belts, who have completed a 16-week training course. As an early enthusiast for Six Sigma while at General Electric under Jack Welch, Mr Bossidy has made sure that AlliedSignal already has 400 of those. What he wants now is for the group's other 26,600 employees to absorb at least one week of that training and become green belts.

The passion with which Mr Bossidy has embraced Six Sigma, which AlliedSignal says has saved it $1.5bn (£937m) since 1991, provides one clue as to why US manufacturers are thriving again.

"Productivity is a mindset," he argues, "the more you do, the better you get at it." And US industry has had longer to get good at it than anybody else. The weaknesses that were exposed by high inflation and growing competition in the 1970s meant "that we had to deal with our issues sooner – and we did. The subsequent productivity improvements have put us in a very strong position."

Mr Bossidy is not naive enough to think that this happy state of affairs will persist. "The European companies are coming back," he says, "and the Asians will, too." But for the moment, US manufacturers are operating against a near-perfect macroeconomic background of strong growth and low inflation. And they have the right mindset.

Take AlliedSignal, which is big in aerospace components and repairs, polymers, speciality chemicals and automotive spares. Mr Bossidy has set a target of improving productivity by 6 per cent a year. He regards this as absolutely necessary: with annual cost and wage increases of 3 per cent and 1 per cent price deflation. "The day you open the door in January you are down 4 points. If you don't get 6 per cent productivity, you have no chance of margin expansion." The company has improved its margins by 1 percentage point a year over the past five.

Six Sigma remains a central part of this drive. While it has become a standard approach in most of the group's plants, AlliedSignal has yet to roll it out across its non-manufacturing activities. Judging by GE's success, it could be just as applicable there. And there is scope to use Six Sigma for growth as well as productivity, such as shortening a new product's time to market or sharing technology across different areas.

Simultaneously, AlliedSignal is introducing modern software – in this case enterprise resource planning programmes from Germany's SAP – into each of its 10 big business units, from which Mr Bossidy claims to be getting a two-year payback.

Even programmes like Six Sigma do not escape the law of diminishing returns. And when it has run its course, Mr Bossidy says it is part of his job to come up with the next good idea. Meanwhile, he is leaving *nothing to* chance. The group is currently schooling its managers in how to plan and act during a possible deflationary downturn, stressing that efficiency gains would become even more crucial in such an environment.

Naturally, it requires education and patience to transform production-led managers into good customer service representatives

Mr Bossidy has also set demanding targets for expansion – the other side of the productivity coin, since cutting costs on its own is only half the answer, he suggests. AlliedSignal reckons it needs 12 per cent revenue growth to hit the 15 per cent annual increase in earnings that it has promised shareholders. That is relentlessly pushing the group into new markets.

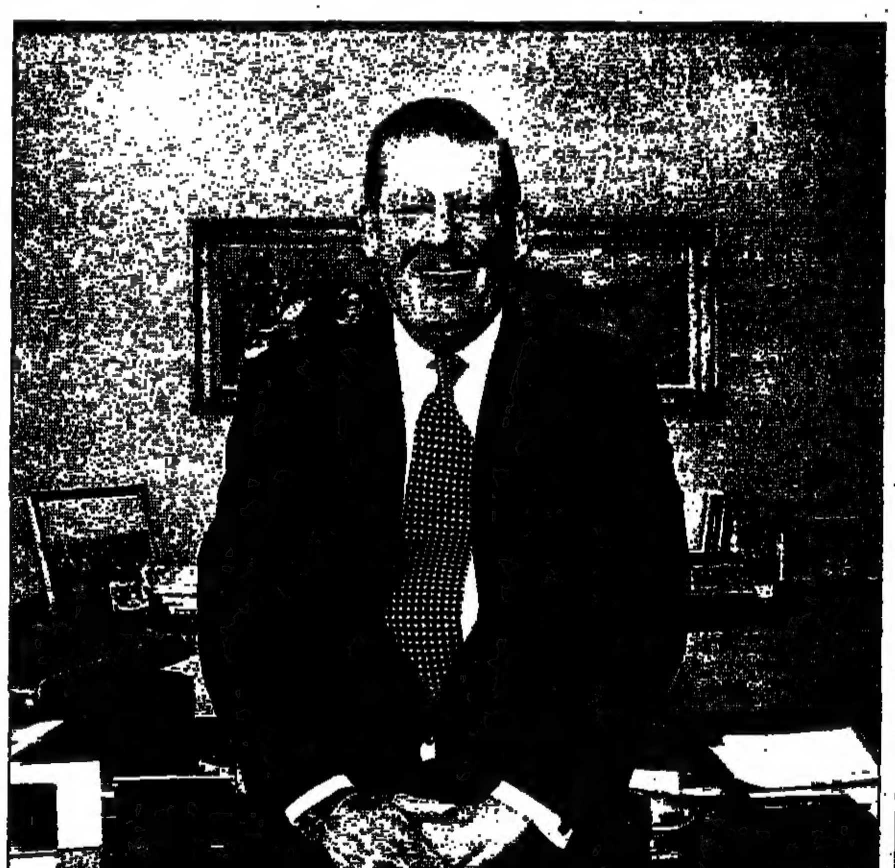
Arguably, AlliedSignal has less of a presence overseas, particularly in Asia, than some of US industry's other big manufacturers. But add indirect exports through global clients like Boeing, and the group claims that its overseas sales amount to 38 per cent of the total – Mr Bossidy would like to make that 50 per cent, although it will probably take acquisitions to get him there.

The search for revenue growth is taking the manufacturing group increasingly into services. The AlliedSignal chairman sees these as being more stable, having inherently higher margins, helping the group protect market share for its products and promoting broader thinking among its managers.

Already, about half of AlliedSignal's turnover comes from the less cyclical after-market, including much of its car parts business and its aerospace repair and overhaul facilities. But only 10-15 per cent can really be described as disparate services. Naturally, it requires education and patience to transform production-led managers into good customer service representatives. But when it works, says Mr Bossidy, it makes them more complete and it helps the business.

Although Mr Bossidy can claim one of the best track records among large US manufacturers (AlliedSignal's shares have risen more than sixfold since he took over in 1991, outperforming the Standard & Poor's 500 index by 80 per cent) the ride has not been entirely smooth. Last year the company missed a quarterly earnings forecast, disappointing Wall Street and hitting its stock. Its car parts business has been disappointing, losing money earlier this year.

And given the current pressures building on US manufacturing, from Asia's problems to a slowing domestic economy, AlliedSignal and its peers will need to apply all of their hard-won skills to stay on top.



Larry Bossidy: 'Productivity is a mindset, the more you do, the better you get at it' Richard Pohle

TECHNOLOGY WORTH WATCHING

Scientists find novel way to alter molecules

British scientists believe they have discovered a potentially important way to alter the chemical characteristics of complex biological molecules, *writes Simon Hadlington.*

The finding could have implications for the manufacture of biosensors, sensing devices that exploit the fact that certain proteins – antibodies or enzymes – can recognise tiny quantities of specific substances. Biosensors are gaining importance for medical diagnosis and in environmental monitoring. To get the proteins into a more useable form they often need to be "immobilised" on to a solid support. This is usually done by modifying parts of the molecule to provide chemical "sticking points" which can react with the solid support, holding the protein in place.

At present, proteins are manipulated by conventional chemical methods or by genetic engineering techniques.

At the Centre for Molecular and Biomolecular Electronics at the University of Coventry, David Walton and John Heptinstall have identified a novel way of modifying proteins. If an electric current is passed through a solution of protein, subtle chemical changes can be made to occur in specific parts of the protein molecule.

These changes can create suitable attachment points for immobilising the molecule.

Using an enzyme called lysozyme as a model system, the scientists showed that very specific changes could be induced, enabling the enzyme to be immobilised on magnetic beads with less than 10 per cent of biological activity being lost.

Professor David Walton, UK: tel (0)1203 838680, fax (0)1203 838370, e-mail d.walton@coventry.ac.uk

Stem cells breakthrough

For decades, researchers have imagined treating human diseases by replacing damaged cells with stem cells – embryonic cells from which all other kinds of cells develop. But these strategies have been limited by an uncertain supply of stem cells.

Now scientists at the US National Institute of Neurological Disorders and Stroke (Ninds) have shown that neural stem cells can be multiplied and raised to maturity in the laboratory and that they can reduce symptoms in an animal model of Parkinson's disease.

The study, which will appear in the August issue of Nature Neuroscience, is claimed to be the first to show that neural stem cells grown outside the body can form specific kinds of neurons – in this case, cells that produce dopamine – and that these neurons can survive and function normally when transplanted into the living brain. Dopamine is an important nerve-signalling chemical, or neuro-transmitter, and the loss of dopamine-producing cells in one region of the brain is responsible for Parkinson's disease symptoms.

Cultured neural stem cells could be applied in human clinical trials in the next two to three years, says Ronald McKay, *senior author of the* Ninds report.

Natalie Larsen at Ninds, US: tel 301 496 5751, web www.ninds.nih.gov/whtnwhp.htm

Security for digital data

Both civil liberties groups and law enforcement agencies are concerned about the lack of an effective way to prove that evidence recorded by digital devices has not been tampered with.

UK-based Signum Technologies has unveiled VeriData, data validation technology which makes it impossible to alter evidence when it is recorded by digital cameras and audio recorders (see examples below).

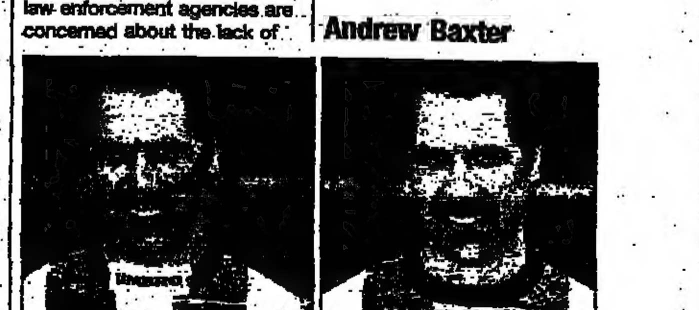
VeriData is aimed for use with digital data that may be subject to judicial or ethical scrutiny – everything from scene-of-crime photography to interviews. It uses mathematically-derived algorithms to encode securely each still image, video frame or audio sample with a special validation signature that can be read with VeriData software.

Signum Technologies, UK: tel (0)1242 580555, fax (0)1242 251600, web www.signumtech.com

Schizophrenia drug trials

Last week's Worth Watching column (Financial Times, July 16) mentioned a new treatment to combat schizophrenia, being developed by Hoechst Marion Roussel. The company has asked us to point out that the drug, M100907, is expected to be submitted for approval in the US late next year and in Europe a few months later – rather than launched on to the market then. Our item was compiled from a press release which HMR subsequently corrected.

Andrew Baxter



In the frame: The VeriData software highlights how the England emblem on England goalkeeper David Seaman's shirt has been removed in the right hand picture

CINEMA

Beauty and violence in counterpoint

Nigel Andrews on the final adventures of Kitano's serial cop hero, Nishi

As mayhem drifts into some higher echelon of transcendence the core idea is acceptance, both of life and death: 'Beat' Takeshi Kitano as the stone-faced angel-avenger, Nishi, in his film 'Hana-Bi'

Watching Takeshi Kitano's *Hana-Bi* is like gazing at a semi-abstract painting. You have to be at just the right distance. Stand too close to this cop thriller-cum-pastoral-cum-Zen elegy, which won last year's Venice Golden Lion for Best Film, and you see a jumble of colours like an exploded Japanese rainbow. Stand too far back – at least this week – and you may hit the opposite wall of world cinema, concussing yourself irretrievably with exhibits like *The Gingerbread Man* (bad Grisham thriller) and *The Magic Sword* (worse Arthurian cartoon). Just far enough is perfect.

"Hana-Bi" means fireworks or literally fire-flowers. That image sums up the movie. Continuing and concluding the adventures of writer-director-star Kitano's serial cop hero Nishi (a Tokyo Dirty Harry, pre-seen in films like *Sonatine* and *Kids Return*), it is a visual juggling act between brute violence and beatific elegy. When the near-retirement Nishi sees a partner die and another sustain paralysing injury in a shoot-out, his own wife's terminal illness with cancer – sketched not stressed in hospital scenes of a perfect, mute economy – becomes part of the stoical kaleidoscope of pain.

He becomes a good Samaritan by turning into a bad cop. A gift of artist's tools to the wife-deserted, wheelchair-bound colleague, who has taken up painting to fight boredom; the gift of a second honeymoon to his wife: both these are made possible by a pragmatic, almost comically brisk bank robbery.

Kitano disburses this plotwork early on, like an action painter chucking colours at the canvas before the more serious business of re-patterning them. The film's second half is a bizarre, contemplative, bewitching fugue. It cross-cuts scenes from the main couple's farewell idyll – deceptively inconsequential "snapshots" as they picnic, visit temples or laugh as they light ill-behaved fireworks – with whole-frame visual explosions from the mind of the painterly ex-cop.

These paintings, done by Kitano himself who took up the hobby while recovering from a near-fatal bike accident in 1993, further enshrine the film's beauty/violence counterpoint. In naif Sunday-painter shapes and colours they depict animals with flower heads – lily-penguins, sunflower-lions – or play-school landscapes like the winter scene with ideogram snowflakes.

Echoing the artworks, the film's own drift towards a kind of near-death serenity is punctuated with surreal irruptions, often violent. Yakuza moneylenders are splattered in a car; an over-talkative beach bum is decked and then sea-dunked in a typical Nishi spasm.

By this point, however, even the movie's mayhem has drifted into some higher echelon of symbolism or transcendence. The film has become hypnotic even when we don't know at each moment how or why we are being hypnotised – though clearly the core idea is "acceptance," both of life and of death.

Watching the filmmaker's own performance as the stone-faced angel-avenger, you realise that western cinema could never do anything remotely like this. Even Clint Eastwood could graduate from *Magnum Force* to *Unforgiven* only by taking on different roles. Kitano, who acts under the name "Beat" Takeshi, has managed in half-a-dozen movies to escort his single hero all the way from pulp fiction to a weird, crepuscular resonance.

★

We are unlikely to get any further adventures of Savannah sleuth Rick Magruder (Kenneth Branagh), who did slim box-office business. *The Gingerbread Man* is based on an early John Grisham story. One is amazed there are any of these left, unless Hollywood is now ransacking his schoolboy juvenilia.

Magruder takes a pretty client (Embeth Davidtz) under his wing when she complains that her father has escaped the local mental home and is about to go loony in the community. Dad is played by Robert Duvall with all pistons whirring, more as if he has escaped the *Sling Blade* set and has guest-starring designs on every southern murder thriller in production.

Robert Altman – yes, Robert Altman – directs: a small geographical journey from Nashville but a giant leap for the man who, like Francis "The Rainmaker" Coppola, was once thought a great movie artist. Succumbing to Grishamitis, he does a fair job of razzing up the performances (mercurial Branagh, more mercurial Robert Downey), inking in growly weather (rainstorms, lightning) and even managing some brand-recognition overlapping dialogue. But it is still like watching Mozart compose theme music for *Starsky And Hutch*.

HANA-BI
Takeshi Kitano

THE GINGERBREAD MAN
Robert Altman

THE DAYTRIPPERS
Greg Mottola

DANCE OF THE WIND
Rajan Khosa

The Daytrippers and *Dance Of The Wind* both come from nowhere and go right to the top of the class. The first is an acutely funny comedy of blue-collar American manners, which means no one has any manners at all as writer-director Greg Mottola steers a dysfunctioning family from Long Island into Manhattan to spy on daughter Hope Davis's suspected unfaithful husband (Stanley Tucci).

That is it for plot. They all just get in a car and drive each other mad before finding Tucci, after a fashion, *in flagrante*. Cheer-led by appalling Mom, played by Anne Meara as a kind of Katharine-Hepburn-meets-Ruth-Gordon (on a bad day for both), the clan comprises longsuffering pop Pat McNamara, ditzy younger daughter Parker Posey and Posey's hilariously pretentious boyfriend Liev Schrieber. He educates people about Andrew Marvell – "a predecessor of Shakespeare" – when not decribing the Sci-Fi-symbolic novel he is writing about a man with a German pointer's head.

This is a Woody Allen movie made by someone with a gift even Allen doesn't have, the ability to make humdrum people hum. At the start you do not think any of these losers could carry a movie or its comic freight. By the close, so wittily has Mottola mapped their foibles and thought-processes, you can imagine each having his or her own TV sitcom.

Perhaps the sequel to *The Daytrippers* should show the family going into Manhattan to watch *Dance Of The Wind*. One would love to hear the boyfriend unravel this. Filmmaker Rajan Khosa composes serenely gnomic images – a bird-fluttered temple, a bracelet of thread passed between generations, a little girl seemingly born in the spaces of the heroine's imagination – as he tells of classical singer Pallavi (Kitu Gidwani), who loses her voice mysteriously in mid-concert and cannot regain it.

An Indian *Persona*? A gone-Buddhist Judy Garland weepie? Its mesmerising appeal – last year's awards included the London Film Festival Audience Prize – is that it seems to speak without a voice itself, or at least a loud one. Both the implied main theme of a tradition-trained woman seeking her own self-expression and the subtle sub-themes (love, religious belief) are conveyed by gesture, nuance and a beautiful play of light-and-shadow on people and objects.

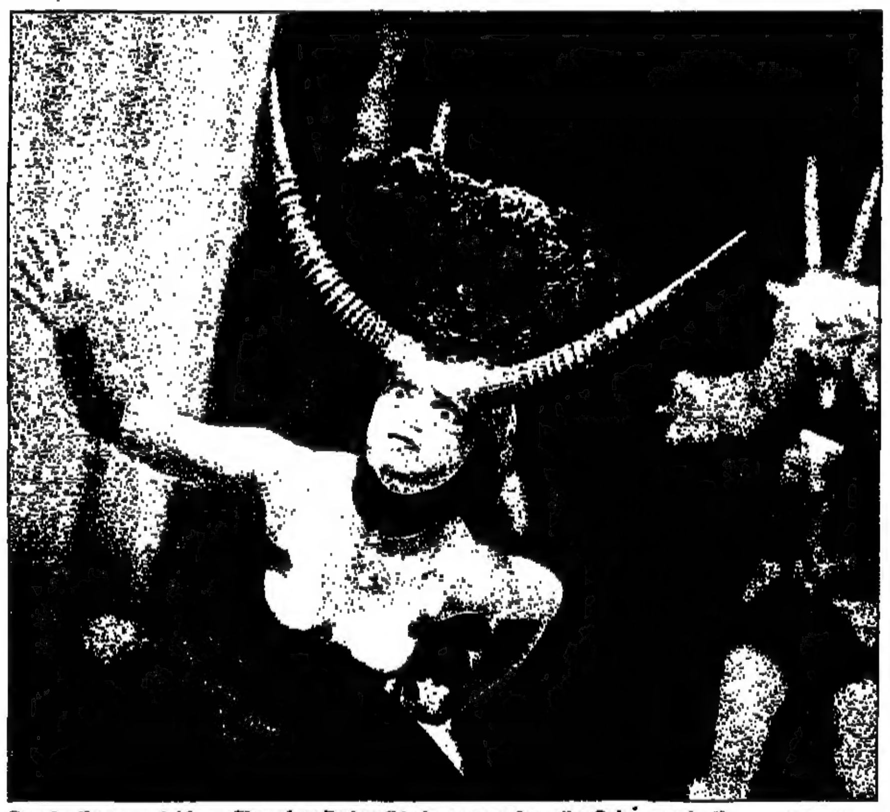
Children are out of school and there are three films you could take them to. *Paulie* (director John Roberts) is a sentimental comedy about a parrot. *Barney's Great Adventures* (Steve Gomer) is a puppet-dinosaur teleshow teased out for the big screen. And in *The Magic Sword: Quest For Camelot* (Frederick du Chau) plasticky maidens, eco-friendly heroes and unfunny dragons cavort across Warner's first feature cartoon. Ah well, there is always the beach.

Voodoo invades Prospero's island

THEATRE

IAN SHUTTLEWORTH

Otra Tempestad
Shakespeare Globe, London SE1



Constantly eye-catching, although quite bewildering: scene from the Cuban production Tristram Kenton

"Some of these characters haven't appeared on the Globe stage before," enthused its artistic director Mark Rylance at the curtain call. Well, they certainly made a bizarre enough debut in Cuban company Teatro Buendía's treatment of *The Tempest*.

In *Otra Tempestad (Another Tempest)*, the shipwrecked souls cast up on Prospero's island consist of Shylock, Macbeth, Othello and a clownish Hamlet. Miranda falls for Caliban whereas her father wishes her to marry Othello; Prospero tries to found a Utopian republic, which gives way to a likewise foredoomed kingdom of blood under Macbeth; Shylock (I'm a little hazy on this point) was in his youth apparently Romeo.

Most significantly, the island is haunted by the daughters of the witch Sycorax, who happen to be Yoruba deities – most prominently Eleggua (the trickster spirit known in Voodoo as Legba), who is hypnotised into assuming the role of Ariel. You get the picture?

No, nor me. Director Flora Lauten and dramaturg Raquel Carrió have drawn for their material on a raft of texts from Bacon's *The New Atlantis* to Carpentier, Paz and Baudrillard. Yoruba and Arara chants and songs are included, along with bits of tribalistic dance, to predominantly percussive music from the gallery. Characters don masks to signify madness or possession (and Prospero's heavy make-up makes it look as if he is constantly wearing such a mask, part-Kathakali, part-Minoan); and the whole thing is utterly bewildering.

Without the programme's scene-by-scene synopsis, I would have had little or no idea what was going on from moment to moment; even with it, there is no indication of *why* what is happening, is happening. There is, of course, no reason to treat Shakespeare with ossifying reverence – but this particular gallimaufry seems to have been put together simply for its own sake.

It is constantly eye-catching, with its set-piece sequences and an ebullient performance from Giselle Navaroli as Eleggua/Ariel ... but to no apparent end. There may be a parabolic subtext commenting upon the state of their native Cuba (and that beard of Prospero's is quite *Fidelista*, after all), but if so it lurks, along with any palpable significance of any kind, full fathom five below the surface.

FILM FESTIVAL KARLOVY VARY

Post-communist renaissance

The most talked about performance at this year's Karlovy Vary International Film Festival took place in one of the packed auditoriums rather than on the screen. Jiri Menzel, who won an Oscar for *Closely Observed Trains* during the Czech New Wave of the late 1960s, attacked producer Jiri Sirotek with a rod for allegedly reneging on a deal. Sirotek, who disputes Menzel's account of the deal, was chased from the auditorium and has demanded an apology.

Away from such theatricalities, the Crystal Globe prize and the best director award were given to *Le coeur au poing (Streetheart)*, directed by the Canadian Charles Binamé, in which a lonely young woman offers herself to strangers for an hour to do with her what they will.

The special jury prize was won by *Den polnolunija (Full Moon)*, by Russian director Karen Shaknazarov, with a series of often inconsequential depictions of life in modern Moscow loosely linked to an event 50 years in the past.

The festival has quietly consolidated its place between Cannes and Venice in the film industry's calendar. After acting as a showcase for communist films, it had a rocky patch after 1989 as it slowly adapted to the new commercial realities.

The festival has re-established its role as a showcase for east European films

But it has now become an annual event, and re-established its role as a showcase for east European films, particularly since – following the collapse of the Moscow and Prague film festivals – it is now the leading film event in the region. Its location in the serene spa town, formerly known as Carlsbad, adds to its attraction, even if the Bohemian weather drives one to take the cure in the hotel bars. This year the festival coincided with the centenary of Czech film-making, which is also buoyant after a bad patch when it lost the generous subsidies it had enjoyed under communism and cinema audiences started switching to the new commercial television stations.

The future ownership of the AB Barrandov film studio and the Kratky Film animation company are still uncertain, but the number of films being made is on the rise and Czech facilities are increasingly being used by foreign companies. Cinema attendances were up last year by 11 per cent.

Czech animation has always been well respected abroad but last year's success at the Oscars of *Kolya*, directed by Jan Sverak, has highlighted the revival of film-making. Helped by Karlovy Vary, Czech films are now not just rivalling the Hollywood product at home, but may begin to become well known abroad again.

Robert Anderson

INTERNATIONAL Arts Guide

BONN

EXHIBITION
Kunstmuseum
Tel: 49-228-776 260
Parti Pris: more than 400 photographs by designer Karl Lagerfeld, including portraits, architecture and landscapes; to Jul 26

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-612 9900
William Scott: Paintings and Drawings. 90 works drawn from public and private collections; to Nov 1

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major, with sets and costumes by John Conklin and lighting by Pat Collins. Baritone Stephen Powell sings the title role. The conductor is George Manahan; Jul 24
● Partenope: by Handel. New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket. Cast includes David Daniels and Lisa Saffer in the title role; Jul 25, 28
● *The Mother of Us All: by Virgil* Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Jul 26
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and *conductor Stewart Robertson*; Jul 23, 27

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Kiri Te Kanawa. With the London Philharmonic Orchestra; Jul 26
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jul 24
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Jul 23, 25, 28

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● *BBC National Orchestra of* Wales: world premiere of a specially commissioned work by Gerard McBurney. Programme also includes works by Prokofiev and Ravel. With the BBC National Chorus of Wales and Philharmonia Chorus, and bass Sergei Aleksashkin; Jul 28
● BBC Symphony Orchestra: Matthias Bamert conducts the UK premiere of Weill's Propheten, and Mahler's Symphony No. 4 in G major. With the BBC Symphony Chorus; Jul 26
● Dresden Staatskapelle: conducted by Bernard Haitink in works by Beethoven and Brahms; Jul 23
● Dresden Staatskapelle: conducted by Bernard Haitink in works by Mozart and Bruckner; Jul 24
● London Sinfonietta: conducted by Markus Stenz in works by Ligeti, Rihm and Adams. With clarinet soloist Michael Collins; Jul 23
● National Youth Orchestra of Scotland: London premiere of Capriccio by Rory Boyle, conducted by Jun'ichi Hirokami. Programme also includes works by Prokofiev and Berlioz. With piano soloist Peter Donohoe; Jul 26
● Solomon: by Handel. Paul McCreesh conducts the Gabrieli Consort and Players. Cast includes Andreas Scholl and Alison Hagley; Jul 27

Wigmore Hall
Tel: 44-171-935 2141
Rodney Gilfry: recital by the baritone of a programme including works by Schubert, Schumann and Gershwin. Accompanied by Roger Vignoles; Jul 24

EXHIBITIONS
Tate Gallery
Tel: 44-171-887 8000
Lucian Freud: Some New Paintings. More than 20 recent works, many of them completed during the last year and never before publicly exhibited in Britain. Includes characteristic, large-scale studio nudes, and portraits of the artist's daughters; to Jul 26

Victoria and Albert Museum
Tel: 44-171-938 8500
The Power of the Poster: including classic images from the 1880s and 1890s as well as the work of contemporary designers and agencies; to Jul 26

OPERA
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
Falstaff: by Verdi. Semi-staged production directed by Ian Judge. With the Monteverdi Choir and Orchestre Révolutionnaire et Romantique conducted by John Eliot Gardiner; Jul 25

MUNICH

OPERA FESTIVAL
Bayerische Staatsoper
Tel: 49-89-2185 1920
● *Die Wände: by Wagner.* Conducted by Jun Märkl in a revival of Nikolaud Lehnhoff's staging. With Placido Domingo; Jul 25
● Don Giovanni: by Mozart. Conducted by Peter Schneider in a staging by Nicholas Hytner, designed by Bob Crowley. Cast includes Alison Hagley; Jul 23
● Le Nozze di Figaro: by Mozart. Conducted by Peter Schneider in a staging by Dieter Dorn, designed by Jürgen Rose. Cast includes Amanda Roocroft and Alison Hagley; Jul 26

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Jul 24

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
Philharmonie der Nationen: conducted by Justus Frantz in works by Liszt and Bartók. With piano soloist Stanislav Ioudenitch; Schloss, Kiel (Jul 23) and Deutsches Haus, Flensburg (Jul 24)

ST PETERSBURG

EXHIBITION
State Hermitage Museum
French Master Drawings from the Pierpoint Morgan Library: 120 drawings, sketchbooks and albums drawn from the library's permanent collections. Highlights include works by Cézanne, Delacroix, Ingres and Poussin; to Jul 25

STUTTGART

OPERA
Staatsoper Stuttgart
Tel: 49-711-202090
● Lady Macbeth of Mtsensk: by Shostakovich. Revival conducted by Alexander Polianichko in a staging by Johannes Schaaf, with sets by Nina Ritter and costumes by Franz Lehr; Jul 24, 28
● Tosca: by Puccini. New production by Willy Decker, conducted by Lothar Zagrosek with designs by Wolfgang Gussmann; Jul 24

TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Boston Symphony Orchestra: conducted by André Previn in works by Vaughen Williams, Chopin and Beethoven. With piano soloist Emanuel Ax; Ozawa Hall; Jul 24
● Boston Symphony Orchestra: conducted by Seiji Ozawa in Mahler's Symphony No.3; Shed; Jul 26

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Osaka Philharmonic Orchestra: conducted by Takashi Asahina in Bruckner's Symphony No. 5; Jul 26

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
● Tosca: by Puccini. New production by Giuliano Montaldo, with sets by Luciano Ricceri. Cast includes Ruggero Raimondi and the conductor is Angelo Campori; Jul 25
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo. Conducted by Daniel Oren. With Maria Guleghina; Jul 24

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV *reports live from LIFFE as the* London market opens.

COMMENT & ANALYSIS

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Goldilocks worried

Many people worry about the global impact of the Asian crisis. But do not overlook the warning signals coming from the US

Despite the generally upbeat message of Federal Reserve chairman Alan Greenspan, we cannot ignore warning noises about the US coming from analysts of different outlooks using the most divergent techniques. These can be summarised as the high level of Wall Street, the looming current account deficit and the rapid growth of the broad money supply.

Wall Street shows even more signs of the "irrational exuberance" that Mr Greenspan complained about 18 months ago. The price earnings ratio has risen to nearly 30, much higher than experienced in any of the peaks of the past two decades. Whenever the ratio has approached such heights in the past, it has fallen sharply.

Normally, a correction of inflated Wall Street prices can be a healthy event. But in present circumstances it could be – more than any direct impact from trade – the trigger by which the Asian crisis affects the rest of the world economy. If or when this happens, it will be almost impossible to sort out the confidence impact from Asia from purely domestic US forces.

The main arguments to justify Wall Street's current heights relate to the so-called equity risk premium and the fall in bond yields.

The equity risk premium is defined as the expected excess return from holding equities compared to bonds, due to the inherent riskiness of the former. According to Goldman Sachs, the premium has fallen from 10 per cent in 1980 to 2 per cent at present. If equities really were less risky, higher prices would be justified.

Unfortunately the reasons given for the permanence of the drop reek too much of the Goldilocks scenario. Better management, trade liberalisation, financial deregulation and more flexible labour markets are supposed to have reduced the risk of recession. Yet on the two occasions in the 1980s when the risk premium narrowed to something near current levels it soon opened out again and share prices fell.

A simpler rationalisation relies on the large drop in US long-term interest rates to 5½ per cent. This has come about partly because the much-predicted world capital shortage has yet to materialise. On the contrary: world savings have tended to outrun viable investment opportunities. It has also been helped by the fall in US inflation expectations. Yet it is questionable how long these will remain as low as they now are, if, as even Mr Greenspan predicts, consumer price inflation creeps up from a recent 1½ per cent to 2 to 2½ per cent in 1999. An inflation blip can be taken in its stride. But pessimists argue that the US economy is overheated and running with over-stretched labour markets.

On this view inflation has been temporarily subdued only by the rising dollar, lower oil prices and the fall in external demand emanating from Asia. None of these, as Mr Greenpsan pointed out, can go on forever; and when they stop the miracle combination of negligible inflation and very high levels of capacity and manpower utilisation will come to an end.

The pessimistic view is reinforced by analysts such as Tim Congdon (in the July Lombard St Research Monthly Review) who look at the sharp acceleration of the broad US money supply. The Fed chairman has just declared that the velocity with which the money circulates through the economy may have become less volatile since the early 1990s. If so, this weakens the case for disregarding the money supply numbers.

Prof Congdon links this monetary explosion to a remarkable widening of the US current account deficit. This arises not only from the familiar rise in imports relative to exports but also from a shift into deficit in the balance of investment income. By the turn of the century US net overseas debts could amount to 25 per cent of gross domestic product.

A current account deficit is not necessarily a cause for alarm and such a deficit in the US and other Western countries is a necessary condition for a Japanese recovery. The worrying feature is that US payments deficit could well have an independent domestic cause and be a sign that inflationary pressures are being held down only by imports. This was what happened in the UK in the late 1980s and could be happening in the US today.

A different type of analysis has been provided by Wynne Godley (FT July 10), who notes that the US private sector, which is normally in surplus, is now in record deficit. It is this move into deficit that has been financing the boom. Historical precedent suggests it will go into reverse. The main contrary argument is that the private sector is running up assets even faster than liabilities, due to the bull market on Wall St. This takes us round full circle to the viability of that bull market.

The question is whether the Goldilocks scenario is anything other than the latest example of the euphoria that settles on the US in most prolonged upturns. If the Goldilocks scenario means that the US has escaped from normal economic constraints and can survive an ever-tightening labour market, without an inflationary nemesis, then it is rubbish. But it could also be given a more sober interpretation. It may just mean that the trend rate of growth, or the equilibrium level of employment and capacity utilisation, have improved in a way that prevailing economic models have yet to capture.

Some of the dangers to it are of opposite kinds. The fear that the US private sector has already accumulated as much debt as it is likely to presages a slowdown or a recession. So does the impact of the Asian crisis. On the other hand, excessively rapid monetary growth and an associated payments deficit relate to overheating and inflation.

If all these warnings referred to a single moment, we might say that they cancel each other out. Alas, matters are not so simple. Many economies have seen a period of inflationary overheating succeeded by a corrective recession – "boom and bust". The near-halt to US growth in the second quarter could thus be a harbinger of worse to come.

An analogy from the UK might help. According to the pessimists, British output is already anything from 1 per cent to 3 per cent above its sustainable level and unemployment is well below the natural rate consistent with stable inflation. A correction will involve two or three years of below normal growth, which could easily tip into recession.

A similar analysis could be applied to the US. But the policy conclusions would be rather different. A couple of years of stagnation might wreak havoc with chancellor Gordon Brown's fiscal plans – which have not been presented on the whole in cyclically adjusted terms. But so long as continental Europe continues to recover this will not be the end of the world.

The US is different. It is in a pivotal position between a gradually recovering European economy, a contracting Japanese and east Asian economy, and continuing worries about Russian and Third World debt. In Mr Greenspan's words, "monetary policy tightening actions in the US could have outsized effects on very sensitive financial markets in Asia" which would eventually rebound on the US itself.

It would therefore be quite reasonable for the Fed chairman to continue to warn about inflationary pressures in the US but not increase the Federal Funds rate. Until there are actual indications of cost pressures "leading to a tendency for prices to accelerate", he has no choice but to continue walking a tightrope between warning and doing.

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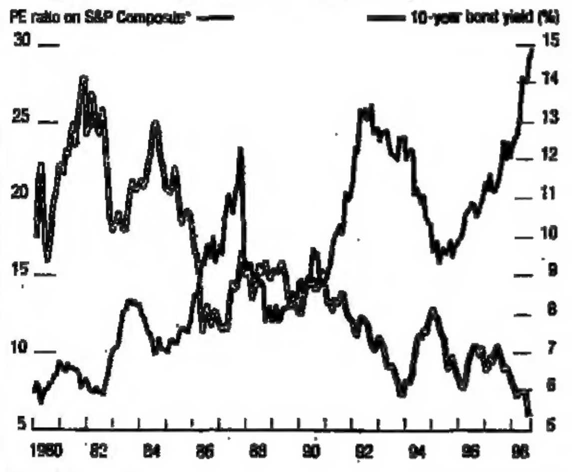
Rising price-earnings ratios and falling bond yields



Source: Datastream/ICV

* Based on historic earnings

LETTERS TO THE EDITOR

No real benefit from undermining branded goods manufacturers

From Dr N.J. Young.

Sir, Your leader, "Grey import whitewash" (July 17), was a bit disingenuous. By all means let us have, via currency transparency and price freedom, the fruits of open competition across the EU. However the "grey import" device advocated by giant supermarkets and other chains with global buying power is just part of their general strategy of commoditising everything, implying to the consumer that all goods are equivalent and there is no need to pay a premium for leading brands.

In this, "pile it high and sell it cheap" approach they contribute nothing to product and package innovation and simply ride on the back of the brand manufacturers who do this. Current law particularly in the UK allows too much passing off of supermarkets' own products already. For example, ask yourself why Sainsbury's "Gold Choice" coffee mimics jar, cup, label colour and one of the two words of the name of Nescafe "Gold Blend". If its product was any good on its own it would package it distinctly as Lyons or others do. Or why do all dishwashers mimic the Fairy Liquid bottle, and many shampoos the Pantene packaging?

Innovative high quality manufacturers need to be able to recoup a fair margin from these investments. Let's not have any crocodile tears from Tesco claiming they are "doing this for the benefit of the consumer". They are selling shelf space for the highest return, nothing else, and if that means stealing someone elses' package idea, so be it.

Also, while we ought to have free movement and competition across the EU, we do not have economic union with the US, and there are many reasons, as the FT well knows, for price differences between it and Europe. High telecommunication costs, transport costs, taxation, energy costs, and the fragmented scale of most of our markets contribute to this.

These are all consequences of the kind of society and politics we have. It would be no bad thing if price comparisons with the US were used to debate the value of these institutionalised burdens, but allowing grey imports to undermine branded goods manufacturers first, in the name of consumerism, is not the answer.

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Germany

Later start bound to fail

From Mr Stephen Walkley.

Sir, The failure of the later start to cure the Stock Exchange's problems should not surprise ("Exchange fails to stimulate traders", July 21). In the 19th Century "Mad" King Ludwig, when told by his engineers that his trains could not run any faster because the last carriage would shake, famously retorted "remove the last carriage".

Unless someone gets a grip, ensures a fair market and reduces dealing costs, then London will deserve to lose out to better organised exchanges.

Stephen Walkley,
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UK

Bank committee needs an industrialist on board

From Mr Roger Lyons.

Sir, In his article, "Dissent into chaos" (July 17), Philip Stephens comes very close to hitting the nail on the head. The decisions of the Bank of England's Monetary Policy Committee are quite likely to have serious consequences for the economy. However, MSF believes that it is not only their approach that is the problem, but rather the composition of the committee.

Last week's survey by the British Chamber of Commerce shows quite clearly that the UK manufacturing sector faces serious difficulties. The high level of the pound and interest rates are putting pressure on exporters and threatening jobs.

British industry can only compete in a global economy by improving productivity to protect itself against currency fluctuations. To meet this challenge, we need an end to boom and bust through investment in plant, new technology, innovation, and training.

To this end MSF has been calling for a manufacturing champion, an industrialist with practical knowledge of industry, to be appointed to the MPC in place of a theoretical economist.

The object is to ensure that the macro economy is managed in a manner that is beneficial to the wealth generating manufacturing sector.

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Of mice and sheep

A Japanese-led team of researchers in Hawaii has made the biological science breakthrough of the year, writes David Pilling

Compared with the achievement of cloning Dolly the sheep, manufacturing a few dozen identical mice may seem less than startling. But news that researchers have developed a technique to produce not just one mouse clone, but clones of clones of clones, is the most important breakthrough in the biological sciences this year (including the launch of Viagra).

There are three reasons why the experiments, carried out by a Japanese-led team in Hawaii, are potentially more significant than those that created Dolly.

First, mice are much easier for scientists to work with than sheep. (A laboratory full of thousands of sheep does not bear thinking about.) Mice have a a gestation period of 20 days, against five months for sheep, so generations of mice can be bred much more quickly. Cumulina, the first cloned mouse to survive, is only nine months old, and during her lifetime more than 50 other mice have been cloned (there were 22 when the paper appearing in today's Nature was submitted). Ryuzo Yanagimachi, who heads the research team, has produced third-generation animals – clones of clones of clones.

Second, Dolly was something of a one-off. It took thousands of attempts to make her and the experiment has not been repeated. By contrast, Dr Yanagimachi reports a success rate of between 2 and 3 per cent, which sounds low but is very respectable by the standards of genetic engineering.

In other words, his team has hit upon a cloning method that is relatively reliable and repeatable, opening up the possibility of creating made-to-measure mice on a commercial scale. That could be a godsend to laboratories and pharmaceutical companies, enabling them to test potential treatments on thousands of identical subjects.

Third, the cloning technique itself might be easier to use in other species. Like Dolly, Cumulina was created by inserting the nucleus of an adult cell into an unfertilised egg from which the

nucleus had been removed. But unlike in the Dolly experiment, the nucleus was not grown in culture. Instead, it was injected via a tiny pipette directly into the egg.

The nucleus was then left to "talk" to the egg's cytoplasm, the "soup" of molecules and proteins that surrounds an egg's nucleus. The process of dividing the single cell of the nucleus into the billions of cells that make up an animal was activated by the addition of strontium chloride, a simple chemical. In the Dolly experiment, cell division was activated by an electric shock.

That means Dr Yanagimachi used a different method to replicate a distinct species. He is confident that the technique, which has been licensed to an Australian biotech company called ProBio, can be adapted to larger mammals such as horses and pigs. Among possible commercial applications, ProBio hopes to produce super-strains of animal such as disease-free poultry and investigate the possible cloning of endangered species.

One species that should not be affected is our own. "Let's be absolutely clear," says Caroline Edmonds of the Babraham Institute in Cambridge, which contributed to the mouse-cloning project. "Human cloning is just not on the cards. It's illegal and that's that."

Perhaps the most exciting aspect of these discoveries is something that Dolly and Cumulina have in common. In the few hours between the injection of the nucleus into the empty egg and the activation of the cell "something very drastic is happening", says Dr Yanagimachi. "It is something magic."

When a cell sets out on life it is known as "undifferentiated" or "totipotent" – it has a complete set of genes with the potential to make any type of cell: bone, kidney, brain, eye or blood. At some point the cell becomes fixed, or "differentiated", selecting what type of cell it is going to be (bone, kidney, etc). It switches off the vast majority of genes that once gave it the potential to be anything. Once a cell has differentiated itself, the process is irreversible, except in some forms of cancer. Or so scientists thought.

Both Dolly and Cumulina prove this is not so. After insertion into the egg, the nucleus of the cell somehow reverses to its undifferentiated state, rediscovering its ability to generate the range of cellular material. It presumably does this after receiving a signal or stimulus from the egg's cytoplasm.

"For this experiment to work, various molecular switches must have been thrown," says Dr Edmonds. "Once the nucleus has been put in the [egg], it appears to reprogram itself, to start again."

The significance of that could be enormous. It may help scientists gain a better understanding of what makes people age. A widely accepted theory of ageing is that as cells make copies of themselves they occasionally make mistakes. As the number of "mistaken" cells increases, the body develops defects. According to this theory, scientists would expect an animal created from the cell of an adult mouse to age prematurely since the genetic material from which it came is old.

Yet, according to Dr Yanagimachi, Cumulina shows no sign of being any older than she should be (ie, nine months). Neither does the third generation of clones – made from the equivalent of grandparents' genetic material. "The mice do not seem to be prematurely ageing," says Dr. Edmonds. "That really is mind-blowing. Somehow they've managed to rejuvenate. But has the clock really been set back?"

Dr Yanagimachi's team is already studying that question. He also believes the discovery that a cell can become undifferentiated again could help in the study of how some diseases work. Some cancer cells become subtly undifferentiated as they replicate uncontrollably. "If there's something wrong with a cell, is it possible to bring it back to normal?" asks Dr Yanagimachi.

Wolf Reik, head of developmental genetics at the Babraham Institute, says: "You could speculate that, if you can reprogram a cell, it may be that some of these are reversible alterations to DNA in cancer cells, rather than permanent mutations... You may even be able to go in and stop it."

Dr Yanagimachi is reeling at these and other possibilities. So intent is he on furthering his studies that he has refused to install windows in his Honolulu laboratory in case his researchers are distracted by the sun and palm trees outside. "No one knows whether it's day or night outside," says Dr Perry. "Sometimes we just work right through the night." Biology's future is being grown in a windowless warehouse in Hawaii.

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FINANCIAL TIMES

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Thursday July 23 1998

Feeble signal on Air France

Sometimes judges are braver than politicians, as the European Commission demonstrated yesterday. Last month the European Court of Justice annulled a FFr20bn ($3.4bn) payment by the French government to Air France in 1994. It was a heroic ruling.

Yesterday, the Commission flunked the same test. Instead of seizing this opportunity to reinforce European competition principles, it reconfirmed its support for the bail-out. The decision sent a feeble signal about its willingness to stamp out politically sensitive state subsidies.

The Air France handout set a new record in the airline industry. Despite the Commission's rhetoric on ending aid to ailing state airlines, it approved the deal after heavy pressure from Paris. The incident is a sad reminder of how hard it can be for Brussels to enforce the rules of the game in the face of determined political challenge.

The lawsuit came from seven privately-owned European airlines, led by British Airways, fed up with taxpayer support for their less efficient competitors. The court ruled that the Commission had failed to justify state support for Air France to purchase new aircraft, or to consider competition outside the EU, particularly on transatlantic routes.

Neil Kinnock, the transport commissioner, argued that the court's ruling was narrowly based on legal technicalities. And no one seriously expected Air France to repay the subsidy.

Nevertheless, rather than taking the court's decision as an affront to its authority, the Commission should have allowed the judgment to stand. Instead, its action makes it look more a defender of subsidies than a watchdog.

It is true that demands from state airlines for government subsidies have abated since the early 1990s. And Air France itself is on course for eventual privatisation. None the less, the Commission's stance weakens its ability to resist the political arm-twisting that characterises all important EU state aid cases. It has also helped undermine the private cases being brought against two other flag-carrier airlines, Italy's Alitalia and Spain's Iberia.

Historically, Brussels has been able to look to few allies to help it fend off such pressures. However, the readiness of privately-owned companies to challenge the Air France package – and the court's judgment in their favour – suggests that things are changing.

If the Commission is serious about imposing stricter subsidies disciplines, it needs to learn to treat these particular critics as potential allies. That it did not do so on this occasion is a sadly missed opportunity.

Not so new LDP

The battle for the leadership of Japan's Liberal Democratic party is traditionally a matter of fierce factional in-fighting in which the concerns of the public are rarely given much attention. Not so with the struggle that has followed the resignation of Ryutaro Hashimoto after the LDP's disastrous defeat in the recent upper house elections.

All three candidates for the leadership, which confers the right to prime ministerial office, have been holding a policy debate. And their arguments have been directed not at the Diet members and LDP regional bosses who will vote on Friday, but at the Japanese people.

This more open style is welcome. Note, though, that the candidates' chances are in inverse proportion to their popularity. It would be a considerable surprise if the young and charismatic Junichiro Koizumi, a successful minister of health and welfare, were to carry off the laurels, given his declared wish to privatise the postal system. The post office in Japan is as much a social institution as a postal service, and it helps drum up support for the LDP around the country.

At the other extreme Keizo Obuchi, the uncharismatic foreign minister, enjoys a pre-eminent position in the powerful Takeshita faction. His proven capacity for old-style manoeuvring within the treacherous waters of the LDP is being deployed to good effect this week.

Muddying those waters is Seiroku Kajiyama, a former chief cabinet secretary, who comes from the same faction as Mr Obuchi. His radical platform includes a call for higher interest rates, which appeals to Japan's high-saving households. Happily, the recent grant of independence to the Bank of Japan will prevent this populist lunacy from throttling a debilitated economy.

Recent changes in the electoral system have had the effect of loosening factional loyalties. Younger LDP members will be more tempted to back radicalism. But on the economy, all three candidates will respond to the upper house defeat by promising fiscal largesse.

The complication lies in the upper house's power to veto tax legislation. That can only be overturned by a two-thirds majority of the lower house. So the LDP will be forced to treat with the opposition parties. Calculations as to which candidate is least likely to prompt the opposition into forcing an early general election may well influence the outcome on Friday.

Mr Hashimoto's defeat has paved the way for better economic policy. But the LDP's weakened position points to political uncertainty ahead – an unhelpful distraction in addressing Japan's economic plight.

Kosovo deal

Although the fighting in Kosovo has become fiercer, there is little prospect of a battlefield breakthrough. Only the Serbs have the military capacity to deliver a knock-out blow. But even if that did not trigger Nato intervention, the Kosovo Liberation Army (KLA) would probably regroup for prolonged guerrilla activity.

The military impasse is made worse by the lack of any prospect of political negotiations. The Serbs reject real autonomy for Kosovo; the Albanians insist on independence, while the international community looks on. The delegation of the Organisation for Security and Co-operation in Europe left Belgrade yesterday empty-handed.

If Kosovo were in a less volatile part of the world, its case for independence would be unanswerable. The ethnic Albanian majority, representing 90 per cent of the population, has a different language and religion from its Serb rulers, who have become more oppressive since the removal in 1989 of Kosovo's provincial autonomy inside Serbia. Albanians have since set up a "parallel" government.

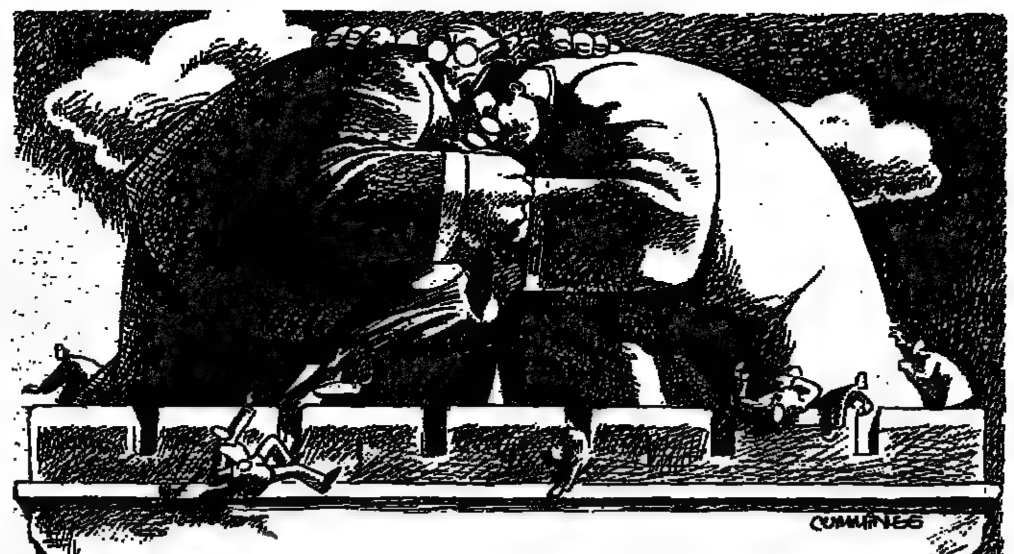
But the international community is right to worry about an independent Kosovo, even if the rights of the Serbs within it could be guaranteed. One anxiety is that it could act as a magnet to Macedonia's large Albanian minority. Another is the knock-on effect on Bosnia, where most Bosnian Serbs have reluctantly accepted, under the Dayton accord, the attempt to live peaceably with Moslems and Croats. Kosovo independence would offer them an excuse to give up the Dayton effort, in which the West has invested so much money and troops.

What, then, is the alternative to outright independence? Kosovar Albanians would not now accept a return to their pre-1989 autonomy. Nor would a democratised Serbia be likely to offer a solution. Most Serb opposition politicians are as insistent as Mr Milosevic on Kosovo staying in Serbia.

It may prove impossible to deflect Kosovar Albanians from seeking to quit Yugoslavia. But first they should be offered full republic status inside Yugoslavia on a par with Serbs and Montenegrins. This would give the Kosovar Albanians greater rights than the autonomy plan now being drafted by the US. But it is probably Mr Milosevic's only hope of undercutting Albanian support for the KLA, and Kosovo's only hope of avoiding extended bloodshed. In the end, Nato may have to take Kosovo over as an international protectorate, like Bosnia. But before this, the international community should put pressure on Mr Milosevic to make a bold gesture, and then on Kosovar Albanians to accept it.

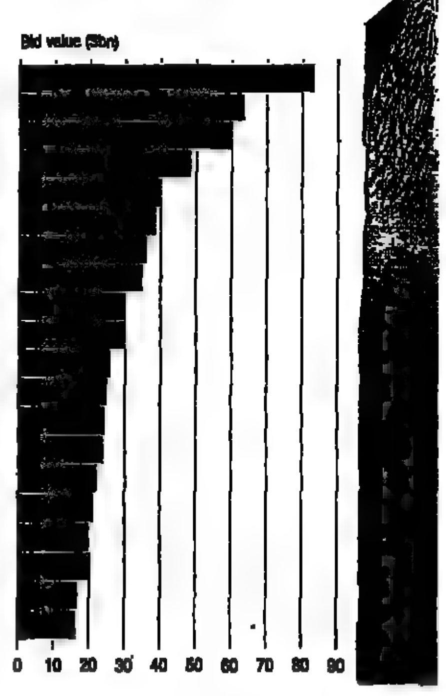
Do mergers help consumers?

John Willman argues that barriers to entry are a bigger competitive problem than a mere reduction in the number of competitors



Top 20 deals since 1984

Merging companies	Date
Travelers Group (US)/Citicorp (US)	Apr 7 1998
SBC Communications (US)/Ameritech (US)	May 11 1998
BankAmerica (US)/NationsBank (US)	Apr 13 1998
AT&T (US)/Tele-Communications (US)	Jun 24 1998
Daimler-Benz (Germany)/Chrysler (US)	May 7 1998
WorldCom (US)/MCI (US)	Oct 1 1997
American Home Products (US)/Monsanto (US)	Jun 1 1998
Norwest (US)/Wells Fargo & company (US)	Jun 8 1998
Sandoz (Switzerland)/Ciba (Switzerland) – Novartis	Mar 7 1996
Banc One (US)/First Chicago NBD (US)	Apr 13 1998
SBC Communications (US)/Pacific Telesis (US)	Apr 1 1996
SBC (Switzerland)/Union Bank of Switzerland (Switzerland)	Dec 8 1997
Bell Atlantic (US)/Nynex (US)	Apr 22 1996
Kohlberg Kravis Roberts (US)/RJR Nabisco (US)	Oct 25 1988
Berkshire Hathaway (US)/General Re (US)	Jun 19 1998
Mitsui Bank (Japan)/Taiyo Kobe Bank (Japan)	Aug 30 1989
Walt Disney (US)/Capital Cities/ABC (US)	Aug 1 1995
First Union (US)/CoreStates Financial (US)	Nov 18 1997
Zurich (Switzerland)/BAT Industries (Financial Services) (UK)	Oct 16 1997
Grand Metropolitan (UK)/Guinness (UK) – Diageo	May 12 1997



Source: Acquisitions Monthly

The league table of the world's biggest corporate deals demonstrates the vast scale of the current round of mergers. Nine of the 10 largest have been made in the past year – eight in the past six months alone.

Is this good for consumers? President Clinton is sufficiently concerned to set up a taskforce to find out, led by Gene Sperling, chairman of the White House's National Economic Council. The issue goes beyond any particular merger or industry to the effect on the economy as a whole. The taskforce will have to decide whether the merger wave will reduce competition or whether consumers will benefit if two or three giant companies slug it out for their custom in each market.

On the face of it, there is little to worry about: despite the recent spurt of consolidation, the share of large companies in total output is not going up. A recent study by the City of London University Business School shows that the share of the top 100 manufacturers in the US, UK, Japan and Germany rose until the 1970s and then stabilised.

"There are good reasons for thinking the advantages of size in manufacturing will be less, not more, important in future," says John Kay, Peter Moores Director of the Said Business School at Oxford University. "Manufacturing processes that typically yield scale economies are of diminishing importance."

But in particular sectors there is a growing concentration. Many are consumer industries, where the impact of mergers on the consumer can be studied most easily. These companies depend directly on end-users; there are no powerful individual customers to mitigate any price rises that might result from a merger of suppliers.

Hence if mergers are against consumers' interest, you might expect to see it most clearly in these markets. Branded foods, spirits, cigarettes, hotels, retailing and pharmaceuticals are all examples in which the market leaders are winning larger shares both by growth and by acquisition.

Take ice-cream, for example – a £30bn a year business globally which is growing fast as consumption in the emerging economies increases towards western levels. Unilever has built a market share of around 20 per cent of retail sales by adding to its core Wall's division acquisitions such as Miko in France, Breyer's in the US and Kibon in Brazil.

Number two worldwide is Nestlé which entered the business seriously only in the 1990s and has quickly grown to take 7.5 per cent of the world market with its own brand and others such as Gervais in France and Motta in Italy. No other manufacturer has more than 3 per cent of retail sales and many of the smaller regional or national producers are losing out to global groups.

Some industries have always tended towards monopoly because of high fixed costs – most notably, the utilities. More recently, the development costs of making new products have had a similar effect on the number of silicon chipmakers and aircraft manufacturers.

And the history of capitalism has always been one of consolidation, as larger groups have swallowed up smaller competitors and markets become dominated by a handful of suppliers. But increasingly even three or four big competitors appears to be more than can be sustained in some sectors.

A good example is the UK supermarkets, where four large chains have a national presence – Tesco, J. Sainsbury, Safeway and Asda. This is a more concentrated retailing scene than most in Europe, yet analysts expect the big four to be reduced to three at some stage in the future.

One reason is that being in third or fourth position means costs which are unlikely to be significantly lower than for the market leaders – but spread over smaller sales. Indeed, it is now accepted wisdom in consumer industries that numbers one and two are the only positions in any market worth having.

The current focus on shareholder value provides an incentive for companies to divest themselves of businesses with a weaker market position. Profitable businesses with good margins may look less attractive when analysed in terms of return on capital employed. Selling them releases capital for core activities with stronger market shares and greater potential for increasing returns. Often the highest bidder is a market leader in the sector, to whom the brand is most valuable. This increases concentration further.

Thus Unilever was able to snap up Breyer's and Kibon when Philip Morris, the international tobacco and food group, sold its US ice-cream business in 1993 and its Brazilian one last year. Campbell Soup is another food group that has spun off non-core businesses such as Delacre, its European biscuits subsidiary, sold to United Biscuits of the UK for $125m in the spring.

These both reflect the trend for non-core divestments to end up in the hands of bigger companies in the sector. Another example is provided this week by PepsiCo's acquisition of Tropicana, the fruit juice supplier, from Seagram which wants to focus on spirits and entertainment.

> 'If the fourth and fifth companies in a sector merge, it may intensify competition'

The market power created by such consolidation has traditionally been seen as a threat to consumers, making it possible for companies to charge more than is possible when competition is greater. Yet the paradox is that some of the world's most concentrated markets are also the most competitive.

The battle between Coke and Pepsi, for example, has been fought fiercely over decades – not necessarily by price cuts but by promotional battles and competition for distribution. Yet Coca-Cola has 50 per cent of global soft drink sales and PepsiCo another 13 per cent.

Similarly, in the US, three large tobacco companies with around 90 per cent of the market are fighting hard for sales in a market that is barely growing. In detergents, Unilever and Procter & Gamble have been waging an unceasing soap war across the continents – one in which the consumer has been the chief beneficiary in terms of price and innovation, claims Niall Fitzgerald, Unilever's co-chairman.

As one consultant who advises on competition issues puts it: "If the fourth and fifth companies in a sector merge, it's not clear this reduces competition: it may intensify it."

There remains a danger in markets where there are only two or three serious contenders that a leading group will establish an unassailable advantage over its competitors.

The power of the largest groups globally is such that strong positions in merely national markets are increasingly hard to defend. Frito-Lay, PepsiCo's snack subsidiary, has entered fewer than a dozen markets outside the US. But wherever it decides to do business, the firepower of its marketing machine means it rapidly becomes the leading brand.

In Australia, for example, United Biscuits sold its snack business to Frito-Lay last year after a concerted onslaught by the US company. United Biscuits had more than 50 per cent of the Australian market and Frito-Lay was a distant number two, but with annual snack sales of just £876m the UK group found itself outgunned by a competitor with sales of almost $10bn a year.

The single most important safeguard against overweaning market power, according to Mark Purdy of the British Consumers' Association, is easy access for new entrants.

"This factor is more important than market share," he says. "High market share may simply reflect efficiency and innovation. So long as new entrants can get into the market, there is no problem."

The barriers to entry that alarm regulators and lobby groups such as the Consumers' Association in the UK include marketing practices which effectively exclude competitors. In Italy, for example, regulators are looking at Pepsi's allegations that it is being frozen out of restaurants by the rebates Coke offers wholesalers in return for exclusive distribution.

And in the US PepsiCo has just launched its first antitrust lawsuit challenging Coca-Cola's dominance in supplying US restaurants and fast-food chains. It says Coke has been telling independent restaurant suppliers it will cut off supplies if they distribute Pepsi.

Selective distribution by manufacturers has also been blamed for stopping sales of branded designer clothing and other goods through European supermarkets. Manufacturers say they wish to control their distribution outlets to ensure adequate standards of presentation for their brands and sales service for their customers.

Retailers wanting to sell such goods at discount say this keeps prices artificially high – an argument they appear to have lost with a European Court judgment last week restricting them from sourcing such goods outside the EU.

Predatory pricing is another tactic for excluding new entrants. The prime example is that of established airlines which are often accused by their low-cost competitors of price cutting to drive them out of business. In the US, such tactics have undermined attempts to reduce fares by deregulation as established carriers have seen off start-up airlines by matching their prices and swamping their routes with extra capacity. Once the new entrant is forced out, the established carrier withdraws the extra capacity and puts fares back up again.

There are always barriers to entry in any market, ranging from the costs of start-up to the need for marketing expenditure to win sales from established brands. But there are strategies which can minimise the costs such as using a brand which has already been successful in another sector – as Virgin has done in marketing a range of consumer products such as cola and pensions.

The threat to consumers, therefore, does not come from the merger wave itself. This may pep up many sectors by increasing competition and reinvigorating previously moribund brands. As President Clinton's taskforce is likely to discover, it lies in the strategies adopted by some market leaders to inoculate themselves from competitive threats in the future.

OBSERVER

In with a shout at Microsoft

Bill Gates has long described Steve Ballmer as number two at Microsoft, so giving him the title of president isn't likely to change things, at least on the inside. But the man Forbes magazine called the General Patton of the software industry will present a different face of the company.

Microsoft is currently personified around the world by nerdy Bill Gates. Ballmer is the consummate salesman who doesn't need a microphone to address huge crowds, whipping up enthusiasm for the company and its products. He once injured his vocal chords while screaming encouragement at Microsoft's salesforce.

More than a business partner, he is also Gates's best friend. They met at Harvard a quarter of a century ago, and Ballmer has been at the heart of Microsoft since Gates hired him in 1980. The two are now almost like husband and wife finishing each others' sentences and anticipating each other's reactions, says a close associate.

Which is not to say that they always agree. Indeed, Ballmer's unique role at Microsoft is that he can tell Gates when he is wrong. To Ballmer, everything is right or wrong. Gates can see shades of grey.

At least Ballmer won't go the same way as Microsoft's last president, ex-Boeing high-flyer Michael Hallman, who spent less than a year with his finger on the Microsoft mouse before Gates sacked him in 1991 because he "hadn't enough bandwidth".

Gates was so addicted to the Minesweeper game which is bundled with Windows that he had it taken off his personal PC. When he needed a fix, he nipped into Hallman's office. With Ballmer being such an old buddy, his door, too, will always be open.

Carlos's cred

Suspicious lot, the Argentines – they just don't believe official statements. President Carlos Menem's sudden declaration that he would stop trying to win a third term produced a newspaper poll in yesterday showing that only 40 per cent believed him.

In the case of Menem, a keen student of Machiavelli, this scepticism may be well-founded. Since taking office in 1989, he has repeatedly outfoxed every rival, both inside and outside the ruling Peronist party.

The most suspicious commentators suggest that Menem's withdrawal is tactical, and that he'll re-enter the race. That would be quite a trick, even for Menem. More likely is a retreat into statesmanlike aloofness – and a bloody behind-the-scenes battle to deprive arch-foe Eduardo Duhalde of the Peronist presidential nomination.

Duhalde, the governor of Buenos Aires province, was the man who sank Menem's re-relection project. He may find that the president is a deadlier enemy when he's working behind the scenes.

Thin crust

Japan may be hungry for change, but judging from the ruling Liberal Democratic Party's feeble search for new policy recipes, disgruntled Japanese voters may have to settle for leftovers.

Keizo Obuchi, the front runner for the post, has such a stale, crusty image he has been dubbed the "cold pizza" candidate. Obuchi's backers say cold pizza can be reheated in the microwave, while his critics retort that reheated pizza still tastes like an old pie.

Obuchi's staff capped this silly debate by delivering fresh pizza to selected members of the Tokyo press corps.

It might all seem like very dull fare, but in a country where anything from tuna fish to scrambled eggs can turn up on your pizza, there might be a few surprises to come.

Press gang

When two influential newspaper editors resign within a week, there's often something fishy going on, especially if they won't say why they quit. In the case of Malaysia, it might be a sign that the government is tightening its hold on the already timid local media.

Mahathir's attacks on local media for being "negative" and echoing foreign criticism of the country are thought to be behind the resignations of Johan Jaafar at Utusan Malaysia and Ahmad Nazri Abdullah at Berita Harian. Both are viewed as supporters of Anwar Ibrahim, Mahathir's deputy and finance minister – and potential rival in the next poll.

The affair coincides with prime minister Mahathir Mohamad turning on his most vocal critic, parliamentary opposition leader Lim Kit Siang, who keeps urging reform and claiming that nepotism and cronyism are rampant in the government.

Mahathir says Lim and the local press have been taking their cue from the hated foreign media. "The opposition are foreign agents in our country," says the premier, "and they expect something for themselves from the foreigners who are out to destroy our nation."

So it's still someone else's fault, then.

Struck off

Lots of obscure taxes are to crash in flames under French budget measures outlined yesterday. The 73-year-old tax on "sugar, glucose, isoglucose and inuline syrup" is to be no more. Nor is an aircraft or airship tax the government says had no equivalent in Europe.

Pride of place in this list of condemned Gallic levies goes to the tax on lighters and matches. Who but the French could have had the ingenuity and diligence to tax fire?

The Financial Times

100 years ago

The Kwangsi Rebellion

Hong Kong, 22nd July.
According to reports from Canton, the Kwangsi rebellion is not yet subdued. The Viceroy continues to send troops to the scene of the disturbance. The Military Mandarin Wong has been ordered to enlist 600 braves for the protection of Canton, and 1,000 for Kwangsi. Admiral Kokwanmun has received instructions to get the fleet ready to proceed to Kwangsi, while Admiral Lao Yiun Ting has been directed to solicit 500 braves to be held in readiness for an emergency.

50 years ago

West German State

Agreement between the Western Powers and the West German State Premiers on speedy setting up of a West German state is now virtually certain, and two German committees will start preparatory work on creation of a Constituent Assembly next week. Exchange of the temporary Russian mark now in circulation in the Eastern Zone of Germany and the Eastern Sector of Berlin for new bank notes will begin next Sunday, the official British newspaper, Die Welt, reported yesterday.

FINANCIAL TIMES
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THE LEX COLUMN

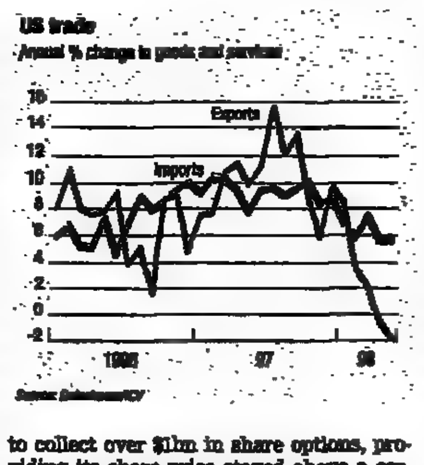
Trading places

Back in 1994 it was difficult to find a good word for the dollar. The US's twin budget and current account deficits were taken as cast-iron reasons for dollar weakness. US authorities badgered Japan to stimulate domestic demand and target a sub-two per cent current account deficit. The present position bears some strong resemblances. The US trade figures are dreadful: the January-May deficit is 40 per cent larger than in 1997. Japan's trade surplus with the US, meanwhile, is 38 per cent higher in the first six months compared to 1997.

There is one big difference – nobody can find a good word for the yen. Only the central banks and hopes of sustained fiscal stimulus prevent it falling further. The problem, of course, is the dire state of the Japanese economy. This is why the yen is weak and the trade surplus large. Investors are therefore right, for the foreseeable future, to ignore the balance of payments and focus on the economy. But this is a problem postponed, not removed. As the US economy starts to slow, businessmen and politicians will grow less tolerant of a weak yen, and investors less indulgent of a large trade gap.

Meantime, much more troubling than the bilateral US-Japan position is the tepid growth of Japan's imports from Asia. Without a recovery in Japanese demand, Asia will not recover. Whoever accepts the poisoned chalice of becoming Japan's next prime minister faces an onerous task.

US trade
Annual % change in goods and services



Source: Datastream/ICV

Computer Associates

Yesterday's 30 per cent drop in the shares of Computer Associates looks richly deserved. The excuses offered in the software group's profit warning – Asia and the year 2000 – are neither original nor credible. Other technology stocks, starting with Oracle, noticed their impact as long ago as last autumn. CA reassured investors as recently as April that its business was growing strongly and that Asia, accounting for only 5 per cent of revenues, was having no effect.

Meanwhile, of course, CA was busily launching the computer industry's biggest ever hostile bid, a $9.8bn offer for rival Computer Sciences – which it later abandoned. And its top three executives, led by chairman Charles Wang, were waiting to collect over $1bn in share options, providing its share price stayed above a certain level. They received their bonus two months ago as the shares hit new highs.

If trading has deteriorated so rapidly in such a short time, the market is entitled to wonder whether something more fundamental is amiss. The group has traditionally grown its top-line at 15-20 per cent, fuelled largely by acquisitions. But having failed to capture Computer Sciences, and with slower sales of its mainframe software, it now expects just 6 per cent revenue growth next quarter. CA has a lot of bridges to rebuild with its investors.

Willis Corroon

Few tears will be shed over the departure of insurance broker Willis Corroon from the London market. Investors were fed up with its underperformance and wary of an industry where competition had ravaged premiums. The US-based market leaders, Marsh & McLennan and Aon, had responded by gobbling up smaller competitors. They are now in a strong position to win the juicier business of providing specialist services to multinational clients.

Investors originally hoped that Willis would merge with its UK-based rival Sedgwick, or be taken over. This would have made sense in terms of cutting costs and bolstering premiums. But management opposition has unfortunately acted like a poison pill, raising the prospect of an exodus of revenue earners. Insurance company clients would have been alarmed too – no wonder five of them are backing a deal that keeps Willis independent.

But here lies a clue to the decent story that Willis should have told the market. It offers an alternative to the big two in an industry where consolidation must at last swing some power back towards the brokers. Cost cutting should also keep Willis's operating profits rising: at less than 10 times this year's expected figure, KKR is far from overpaying. And it will also have management thoroughly on board through its new equity interests. The baton now passes to Sedgwick either to show it can, after all, create shareholder value in the public arena, or find a similarly satisfactory exit.

KKR

US private equity funds are flush with cash and on the prowl in Europe. Their UK rivals should be worried. Of course, KKR's £951m acquisition of Willis Corroon looks tame by comparison with the 1980s; not so much a case of barbarians storming the gates as tapping politely at the tradesman's entrance. But it is significant. It is KKR's biggest deal in Europe. And more deals should follow, not only from KKR but from other US funds, for two main reasons.

The funds are facing tougher competition in the US to close deals as they have to fight off trade buyers armed with highly-rated paper. And companies have less need of private finance when the US bull market provides such a keen source of growth capital. Furthermore, US funds expect economic and monetary union in euroland to spur on corporate restructurings which should throw up acquisition opportunities.

The US funds have an edge over UK funds by virtue of their size. They do not come bigger than KKR with its $6bn fund. KKR does not need a partner to fund deals and does not have to share its returns. US buy-out firms may also spot opportunities in sectors that UK firms have tended to avoid, such as financial services. KKR's deal is a case in point. UK venture capitalists have put people in Europe to hunt for deals. But when it comes to corporate culture, continental Europe can be as foreign to the British as to the Americans.

France in policy change with Aerospatiale merger

By Alexander Nicoll in London and David Owen in Paris

The French government announced last night it was to merge state-owned Aerospatiale with the defence interests of Lagardère, the private sector defence and publishing group, and that it would emerge with less than a majority holding in the combined group.

The privatisation represents a big shift in policy by the socialist government of Lionel Jospin, the prime minister, and is an important step towards consolidation of Europe's three biggest aerospace groups into a single unified company.

Under the agreement between the government and Lagardère, the latter's Matra defence arm will be brought together with Aerospatiale, with Lagardère management expected to play a significant role in the future running of the combined group.

Lagardère will own 30 to 33 per cent of the combined group, subject to the valuations of the companies, and further shares will be sold through an initial public offering to bring the French government's share in the group to below a majority. The French government said its move was in line with the policy announced last December by London, Bonn and Paris that Europe's aerospace and defence companies should be restructured in order to create a company big enough to compete with Boeing and Lockheed Martin of the US. Experts said the move represented an attempt by Paris to seize the initiative in the consolidation process.

British Aerospace, Daimler-Benz Aerospace (Dasa) of Germany and Aerospatiale have been negotiating for months on the terms of a merger of their activities. However, the biggest obstacle has been the French state holding in Aerospatiale.

The British and German governments have been putting tremendous pressure on Paris to relinquish state control of Aerospatiale so that consolidation of the industry could go ahead. BAe and Dasa have been edging towards striking a deal without waiting for a change in French policy.

The announcement said there would be discussions with Dassault Aviation, the family-controlled company which makes the Rafale fighter and business jets. Aerospatiale owns 47 per cent of the group but the Dassault family has so far given no indication that it is prepared to co-operate in industry restructuring.

Lagardère, which is being advised by Robert Fleming, the merchant bank, will put into the new group its 100 per cent-owned defence systems and information activities as well as its 50 per cent stake in Matra BAe Dynamics, a missiles venture with British Aerospace, its 51 per holding in Matra Marconi Space, a venture with GEC of the UK, and 50 per cent of Matra Nortel, a communications venture.

Lagardère said valuations had yet to be done but it expected the merger to be earnings-enhancing for its shareholders.

The Matra/Aerospatiale group will seek further ventures and other companies may come in as shareholders, the announcement said.

The agreement will require the approval of Aerospatiale works councils, Lagardère shareholders, and regulators including the European Commission.

Brussels approves controversial $3.3bn state aid for Air France

By Samer Iskander in Brussels and Michael Skapinker in London

Air France will not have to repay FFr20bn ($3.3bn) of state aid in spite of a European Court ruling that the aid was illegal, the European Commission said yesterday.

"Cancelling the aid is feasible neither in law nor in practice," said Neil Kinnock, European Union transport commissioner.

The Commission's response to last month's ruling angered British Airways, which had led the group of seven airlines that brought the Air France case to court.

BA said it was "surprised and disappointed" by the Commission's announcement. "This is a lost opportunity for the Commission to take a firm stand on airline subsidies."

In response to the ruling, the Commission provided more detailed arguments on the two points raised by the court – Air France's purchase of new aircraft and its competitive position on transatlantic routes affecting competition within Europe. Mr Kinnock said he was "confident that the proposal we have will satisfy the court". His plan was backed by another 12 commissioners, with three voting against.

Sir Leon Brittan, Commission vice-president, who had voted against authorising the aid in 1994, is believed to have opposed yesterday's compromise. He is thought to have argued that the Commission should have considered its political options more thoroughly, according to Commission insiders.

Chris Allen, BA's head of competition and industry affairs, said the airline would new press the UK government to proceed with its own action over the Air France case. The government's complaint before the European Court of Justice was postponed while the lower Court of First Instance heard the airlines' case.

The government would not be drawn on whether it would proceed with its case. "We're going to have to consider the new position carefully," it said. "We welcomed the judgment of the Court of First Instance and we're still studying that. We will now have to consider the Commission's statement."

Mr Kinnock said the aid complied with EU law because it was accompanied by a comprehensive restructuring plan, which had had the desired effects – rationalisation of the company's business operations, cost-cutting, redundancies, closure of unprofitable routes and reduction in financial costs. A partial sell-off of the government's stake in Air France is due to begin this autumn.

Mr Kinnock also pointed out that the purchase by Air France of 17 new aircraft for FFr11.5bn did not contravene the Commission's cap on the growth rate of the company's total capacity. "The new planes replaced old ones and could not, therefore, be said to have increased the number of seats at Air France's disposal," the Commission said.

Editorial Comment, Page 11

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A Greek fireman helps tackle one of a number of forest fires close to Athens suburbs which have claimed the lives of three firefighters

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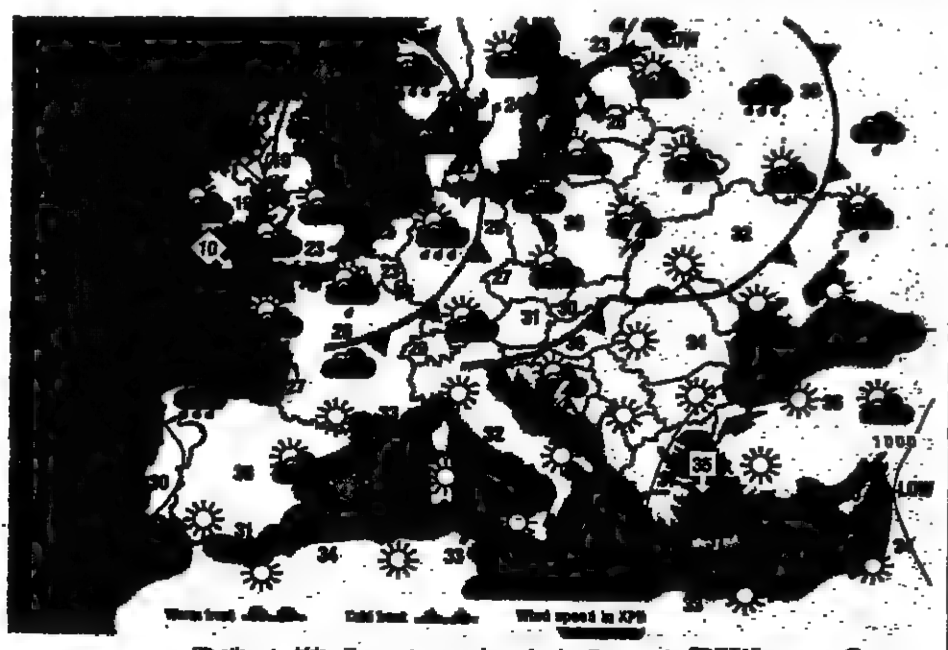
FT WEATHER GUIDE

Europe today
Scandinavia will have rain in the north and the south-west, but areas backing on to the Baltic and the Gulf of Bothnia will be fine. Austria, Slovakia, the Ukraine and western Russia will have thundery showers. South-eastern Europe and the Mediterranean will be hot and sunny. France will be sunny with some showers in the north. The south will be hot and mostly sunny. It will remain hot over Spain, but the north-west will be cooler with showers.

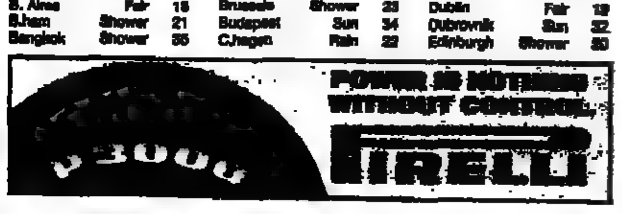
Five-day forecast
High pressure will build over western Europe and southern Scandinavia, bringing dry and settled weather. A new disturbance will bring rain to north-western Europe on Sunday and Monday. Thundery showers will continue over the Alps and the mountains of eastern Europe.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	42
Accra	Fair	27
Algiers	Sun	34
Amsterdam	Shower	23
Athens	Sun	36
Atlanta	Fair	35
B. Aires	Fair	15
B.ham	Shower	21
Bangkok	Shower	35
Barcelona	Sun	31
Beijing	Fair	32
Belfast	Shower	18
Belgrade	Sun	36
Berlin	Thunder	25
Bermuda	Fair	31
Bogota	Fair	18
Bombay	Thunder	[illegible]
Brussels	Shower	25
Budapest	Sun	34
C.hagen	Rain	22
Cairo	Sun	35
Caracas	Fair	33
Cardiff	Shower	20
Casablanca	Sun	27
Chicago	Shower	28
Cologne	Shower	25
Dakar	Fair	30
Dallas	Thunder	36
Delhi	Fair	33
Dubai	Sun	44
Dublin	Fair	19
Dubrovnik	Sun	32
Edinburgh	Shower	20
Faro	Sun	32
Frankfurt	Fair	27
Geneva	Sun	29
Gibraltar	Sun	30
Glasgow	Shower	19
Hamburg	Shower	25
Helsinki	Fair	23
Hong Kong	Fair	32
Honolulu	Fair	32
Istanbul	Sun	32
Jakarta	Sun	32
Jersey	Shower	20
Jo'burg	Shower	13
Karachi	Sun	38
Kuwait	Sun	46
L. Angeles	Cloudy	24
Las Palmas	Sun	29
Lima	Cloudy	21
Lisbon	Sun	30
London	Fair	23
Lux.bourg	Shower	24
Lyon	Sun	30
Madeira	Fair	27
Madrid	Sun	35
Majorca	Sun	33
Malta	Sun	32
Manchester	Shower	20
Manila	Thunder	33
Melbourne	Shower	14
Mexico City	Fair	21
Miami	Thunder	32
Milan	Sun	35
Montreal	Shower	28
Moscow	Shower	30
Munich	Shower	27
Nairobi	Fair	24
Naples	Sun	35
Nassau	Fair	33
New York	Thunder	34
Nice	Sun	29
Nicosia	Sun	35
Oslo	Rain	22
Paris	Fair	25
Perth	Fair	18
Prague	Fair	27
Rangoon	Shower	34
Reykjavik	Rain	12
Rio	Fair	24
Rome	Sun	32
S. Frsco	Fair	22
Seoul	Fair	30
Singapore	Thunder	[illegible]
Stockholm	Fair	24
Strasbourg	Fair	28
Sydney	Shower	16
Tangier	Sun	32
Tel Aviv	Sun	33
Tokyo	Thunder	29
Toronto	Fair	25
Vancouver	Sun	23
Venice	Sun	34
Vienna	Thunder	31
Warsaw	Fair	30
Washington	Thunder	35
Wellington	Fair	14
Winnipeg	Sun	19
Zurich	Fair	28



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مكررا من الاصل

FINANCIAL TIMES

COMPANIES & MARKETS

THURSDAY JULY 23 1998

Week 30

INSIDE

Swisscom sets out plans for initial public offering

Swisscom, Switzerland's state-owned telephone company, has given analysts a look at what could be Europe's biggest initial public offering this year. The flotation of up to 49 per cent of Swisscom could raise about SFr10bn ($6.5bn). Page 16

Fight to revive Cendant degenerates

The struggle to revive Cendant, the US marketing and franchising company whose share price has halved in the wake of allegations of accounting fraud at CUC International, has degenerated into what seems set to become one of the greatest corporate governance test cases of the decade. But Walter Forbes (left), chairman, has made clear that he sees no reason why he should resign. Page 14

Investors more relaxed over Russia

Russia's rescue package from the International Monetary Fund and the apparent success of its T-bill exchange scheme have reduced volatility in emerging debt markets and prompted investors to take a longer-term view of such risk. Page 20

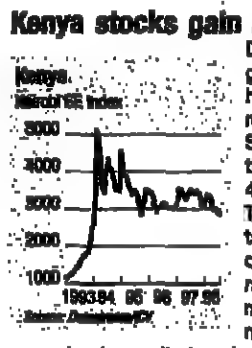
Crude oil stocks continue to grow

The gloom over world oil markets showed no sign of lifting as the latest weekly inventory figures from the US revealed continuing growth in crude oil stocks – even though most refineries were reported to have been working flat-out. Page 22

Testing times for Kerala tea growers

Kerala, India's least profitable tea centre, faces a struggle to improve the quality of its crop because the price of poor quality tea is falling. Page 22

Kenya stocks gain slight relief



Dividend buying and general bargain-hunting helped bring a slight recovery to the Nairobi Stock Exchange after the market fell to a 4½-year low this week. The International Monetary Fund's suspension of a key loan agreement, resulting high interest rates, alternative investments and the onset of recession have all played a part in the slide over the past 12 months. Page 32

Yen falls as Obuchi's prospects rise

The yen fell again on reports suggesting foreign minister Keizo Obuchi would become prime minister of Japan. The market believes Mr Obuchi is less of an economic reformer than his two rivals. Page 21; Editorial Comment, Page 11

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MARKET STATISTICS

DTB alliance with Liffe mooted

By Edward Luce and George Graham in London

Rolf Breuer, the chairman of Deutsche Bank, yesterday said the UK and German stock markets could extend their *recent alliance to their deriva*tives exchanges.

Mr Breuer, who is also chairman of Deutsche Börse, said a tie-up between the London International Financial Futures and Options Exchange and the Deutsche Terminbörse – fierce rivals – would be a "natural follow-up" to the alliance between the two stock markets. "The real enemy is on the other side of the Atlantic, not on the other side of the [English] Channel," said Mr Breuer, referring to the *strength of US exchanges.*

The comments came just 24 hours after Liffe appointed Brian Williamson as its first *full-time chairman.* Mr Williamson, who will step down as chairman of Gerrard, the money market trading house, said he would review Liffe's strategy and would not rule out a link with Frankfurt.

Mr Breuer, who is considered one of the most powerful officials in Frankfurt, said he could do business with the new chairman of Liffe. "Brian Williamson is a professional," he told the Financial Times.

The DTB, which earlier this year merged with Soffex, the *Swiss derivatives exchange, to* create Eurex, is wholly owned by the Deutsche Börse.

Liffe has recently undergone an *upheaval in response to the* threat from Eurex, which poached majority share in the 10-year German government bond future, one of Liffe's two leading contracts. Price competition between the two exchanges has reached such levels, officials in Frankfurt believe costs at the DTB cannot be lowered much further.

Mr Breuer also said the alliance between the London Stock Exchange and the Deutsche Börse, which aims to set up a trading platform for pan-*European equities, would need* the participation of other European exchanges.

It has been strongly criticised by the French stock exchange, which says it will set up a rival alliance with other European bourses.

"I think the whole thing only works properly if the other exchanges join," Mr Breuer said.

He warned, however, that if they did not, they risked seeing their companies poached by the London-Frankfurt market. "In the war plan, if they don't join, there comes a point when you go and try to acquire their listed companies. But then that's open war. We would very much prefer that they join."

Mr Breuer said the Frank*furt exchange had always* believed in the desirability of creating a pan-European trading platform. "At first, we thought we needed to get our act together with the other continental exchanges, and then we could talk to London. So we were more than enthusiastic about the idea of doing the whole thing at once."

Bonds, Page 20

Software group's stock falls 33% in US

By Louise Kehoe in San Francisco

Computer Associates shares plunged 33 per cent in early trading yesterday after the business software group became the latest company to warn of slowing growth and reported a first-quarter loss, after special charges.

"We are concerned about the ripple effects of the Asian economic turmoil on our multinational clients and its potential adverse impact on our near term business," said Sanjay Kumar, president and chief operating officer.

Coupled with deferred software purchasing decisions as companies dealt with millennium bug problems, this could lead to slower revenue and earnings growth over the next *several quarters, he warned.*

At least seven brokerage houses downgraded the stock yesterday. By midday its shares were down $18¾ at $38¾, after setting a new 12 month low at $37¼. Its stock was the most active on the New York Stock Exchange.

Late on Tuesday, the company reported an expected net loss for its fiscal first quarter, after it granted a large stock bonus to top executives. The company took a charge of $675m associated with the award of 20.25m shares to its three top executives. But Wall Street was more concerned about CA's warning that it expected slower growth in the second and third fiscal quarters. CA told analysts it expected sales of mainframe software to drop by 15 per cent in the second quarter, against the same period a year ago. Mainframe software comprises nearly half CA's revenues.

Flat shipments of mainframe computers by International Business Machines in the June quarter, as IBM changed to new models, might foreshadow slow demand for CA's related software, CA said.

However, sales of CA's software for networked computers, including its flagship Unicenter programs, sold strongly in the first quarter. Revenues from this segment were expected to rise at a 35 per cent rate in coming quarters.

For the first fiscal quarter CA reported a net loss of $481m, or 87 cents a share, compared with a net profit of$156m, or 28 cents a share a year ago. Revenue rose 18 per cent to $1.05bn.

Lex, Page 12

Lucent lifted by boom in telephone technology

By Roger Taylor in San Francisco

Lucent Technologies, the world's largest maker of telephone equipment, more than doubled profits before charges in its third quarter. It was helped by international expansion and the rapid growth of integrated telephone networks capable of handling both voice calls and data.

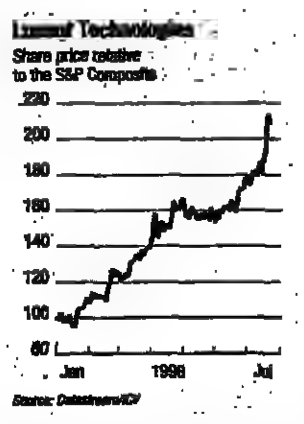
Excluding $668m in one-off charges, net income rose to $435m, compared with $213m for the same period last year. Earnings per share were 32 cents, up from 17 cents and well ahead of Wall Street forecasts of 27 cents.

The better-than-expected results come after a sharp rise in Lucent's share price, which has increased more than sixfold since the company was spun out of AT&T two years ago. The business is now worth about $133bn – substantially more than its former parent. Lucent's shares rose ½ to 102¾ in early trading yesterday – against the market trend.

The rise has been driven by the boom in telephone technology, including the growth of mobile phones and, more recently, the explosive growth of the internet. This is creating demand from telephone companies for data networking equipment used to manage internet traffic, e-mail, video-on-demand and the wide range of new uses to which telephone lines are being put.

Lucent has also benefited from rapid international expansion. Currently, the company has only about 3 per cent of the market outside the US but is growing fast. International growth rates were twice those inside the US for most product areas. As a result, revenues grew 14 per cent to $7.2bn for the three months to June 30.

The $668m in one-off charges



mainly relate to Lucent's recent acquisitions of businesses that specialise in data networking equipment. They left the company with a loss of $232m for the quarter, or 17 cents a share.

Lucent has identified the fast growing market for data networking equipment as central to future growth, but faces stiff opposition from the computer companies that originally developed the technology, such as Cisco Systems.

Bill O'Shea, head of Lucent's data networking division, said he believed the market potential was worth up to $50bn and that this would double by 2002.

Lucent has bought a string of companies over the last year, including Prominet, Livingstone Enterprises, Yurie Systems and Lannet, in order to build up its expertise in data networking, reflecting the need for telephone equipment companies to be able to offer these new technologies.

Advancing into Europe: John Reeve (right), executive chairman of Willis Corroon, and Perry Golkin of KKR, which plans more expansion. Colin Beere

KKR acquires Willis Corroon

By Christopher Adams in London

Willis Corroon, the international insurance broker, yesterday bowed to the intense pressures of a rapidly consolidating industry by going private.

Kohlberg Kravis Roberts, the US-based private equity fund and leveraged buy-out specialist, is to buy the group in a deal valuing it at £951m ($1.57bn).

Together with five insurance companies, KKR is offering investors in Willis 200p per share in cash. KKR will take a 76 per cent stake in the group.

Royal & Sun Alliance and Guardian Royal Exchange, the two *UK-based insurers,* and the three US insurers Chubb, Hartford and Travelers will together acquire 19 per cent. Management in Willis Corroon will initially subscribe for 5 per cent, with directors pledging to invest at least £700,000 between them.

The deal is the biggest investment to date in Europe by KKR, which was formed in 1976 and has wide-ranging interests that include Rhine Re, the Swiss reinsurance group, and Bristol West Insurance, a Florida-based car insurer. The fund has previously owned American Re, which was bought by Munich Re two years ago, and Canadian General, an insurer *recently acquired by General* Accident. Perry Golkin, a partner at KKR, said the move signalled further expansion in Europe. "We're more focused on Europe," he said.

The acquisition drew speculation about Sedgwick, now the only one of the world's four big insurance brokers not to have been involved in a large corporate transaction within the past two years.

The insurance broking industry, under pressure from slim margins and elusive prospects for growth in its traditional business, has been restructuring. Many analysts saw Sedgwick as a potential partner for Willis Corroon. Shares in both companies jumped yesterday, *Willis* gaining 19p to 197½p and Sedgwick rising 12½p to 146½p.

John Reeve, executive chairman of Willis Corroon, said: "We've been trying to change the group against a background of very difficult industry consolidation."

PDFM, which has 20 per cent of Willis and 23.5 per cent of Sedgwick, has agreed to accept the offer, but could accept another bid in respect of half of its shareholding if the alternative is a 10 per cent premium to the existing offer. Although possible, analysts were sceptical another buyer would emerge.

Lex, Page 12
Buy-out risk accepted, Page 18

Philippine strike casts doubt on airline's future

By Justin Marozzi in Manila

Philippine Airlines' largest union yesterday delivered what could be the death blow to Asia's oldest airline when it staged a wildcat strike.

The action is the latest in a long and militant confrontation between PAL's labour and management. The airline has been struggling for survival amid the turmoil of the Asian economic crisis and last month dismissed 5,000 employees following a crippling three-week pilots' strike.

The Philippine Airlines Employees Association, which *represents 8,000 ground crew,* yesterday announced an indefinite strike in protest at last month's retrenchments.

The company, *which is* chaired and majority-owned by Lucio Tan, the Chinese-Filipino tycoon, responded by saying: "This reckless and ill-advised action, like a fatal blow, may ultimately crush Philippine Airlines." Employees had been asked to refrain from striking and warned of the need to reduce manpower if PAL was to survive the regional crisis and the costs of the earlier pilots' strike.

"By staging this illegal strike, PALEA has put in jeopardy any proposed rehabilitation plan for the airline and, with it, our last hope for survival as well," PAL said.

On Tuesday, Manila's Securities and Exchange Commission granted PAL a further 50 days to finalise its rehabilitation plan. The airline has obligations of 85.1bn pesos ($2bn), most of it owed to foreign institutions and aircraft les*sors, and assets of 90.6bn* pesos.

In an attempt to restructure its obligations, PAL earlier announced plans to cut *its* fleet from 54 aircraft to 14.

Perfecto Yasay, SEC chairman, said the ground-crew union's action would have an "adverse effect" on the rehabilitation plan, adding: "We would like to examine very closely if their rehabilitation plan will be workable because of the strike."

The action also comes as PAL was creeping back towards offering more services. The airline said it had *dispatched 19 domestic flights* and four flights to three Asian destinations yesterday and expected normal operations *today, with 21 domestic and* seven international services.

Airline analysts, many of whom have been predicting *PAL's demise since the pilots'* strike began in June, said the latest move could kill off any hopes of recovery for the airline.

"Given the militancy of PAL's unions and the lack of common ground between them and the *airline, it is* very difficult to see how it can survive," said one analyst in Hong Kong.

If it collapsed, PAL would be the largest Philippine victim yet of the Asian crisis, rocked by an overly ambitious $4bn *modernisation programme* started before regional currencies plunged against the dollar last year. The airline lost a record 8.06bn pesos in 1997, and yesterday said it lost 392m pesos last April and May alone.

CHEMICALS AND LIFE SCIENCES US GROUP WARNS OF CONTINUING EARNINGS SHORTFALL UNTIL FOURTH QUARTER

DuPont posts 12% decline in second term

By Tracy Corrigan in New York

DuPont, the US chemicals and life sciences group, yesterday reported a 12 per cent drop in earnings for the second quarter and warned that third-quarter earnings would also fall below last year's level.

However, the company said that the results of recently introduced productivity measures should show results in the fourth quarter.

"Business conditions in the first half have been some of the most difficult we have experienced in recent years," said Charles Holliday, DuPont president and chief executive officer.

"The effects of lower oil prices on Conoco, interest expense from acquisitions and a weaker performance in our polyester and crop protection businesses were not sufficiently offset by a strong performance in white pigments and nylon."

DuPont previously said it still planned to float Conoco later in the year.

DuPont's earnings per share of 87 cents, before non-recurring charges, were down from 99 cents a year ago but in line with analysts' estimates.

Analysts had scaled back their forecasts two weeks ago when DuPont warned its second-quarter earnings would show a decline of between 10 per cent and 15 per cent on last year's second quarter.

At the time of that announcement, Mr Holliday said: "Unless we see an improvement in energy prices, we are unlikely to meet our objective of a fifth consecutive year of record earnings."

Yesterday, he said: "We expect the challenges we faced in the second quarter to continue, exacerbated by slowing volumes from the growing effects of the General Motors strike and the Asian financial crisis."

DuPont has blamed a wide range of factors for its profits downturn, including the weather, lower demand in the textile industry and pricing pressures in the US crop protection market.

Net income for the second quarter totalled $1bn, down 12 per cent, before non-recurring items. Sales of $11.1bn were flat when adjusted for divested operations.

Underlying earnings at Conoco slid 27 per cent to $180m, reflecting a decline in crude oil prices, while life sciences earnings were $251m – up 3 per cent.

Shares in DuPont, which has been building its life sciences business, slipped $1¼ to $65¼ in morning trading in New York.

Cendant struggle set to turn into test case

Corporate structure could make it hard to force chairman out despite audit findings, write **John Authers and William Lewis**

The struggle to revive Cendant, the US marketing and franchising company whose share price has halved this year in the wake of allegations of widespread accounting fraud, has degenerated in the last week into what seems set to become one of the greatest corporate governance test cases of the decade.

Walter Forbes, the former chief executive of CUC International, the direct marketing company where the accounting irregularities are alleged to have taken place over a three-year period, is currently the chairman of Cendant.

According to an announcement by Cendant last week, more than half CUC's profits last year were created by either deliberately misleading or erroneous accounting

According to an announcement made by Cendant last week, more than half of CUC's profits for last year were created by either deliberately misleading or erroneous accounting.

Mr Forbes is due to take over as chief executive at the end of next year under last year's merger agreement bringing CUC together with HFS, the hotel and real estate franchising company, to form Cendant.

Several shareholders are demanding his resignation, saying this is necessary to restore confidence in the stock.

But Mr Forbes, who is not currently available for interview, has made clear he sees no reason why he should resign.

There has been no suggestion thus far that he was aware of the irregularities.

Corporate governance advocates now believe that both the structure of Cendant's board, and the severance package laid out for him in the merger agreement, could make it prohibitively difficult to force him to go.

Mr Forbes now appears to be in a state of undeclared war with Henry Silverman, the current chief executive and former head of HFS, who has taken a lead in investigating the fraud allegations and making them public.

Mr Forbes has retained a separate public relations company and legal firm to advise him.

Walter Forbes, chairman, (left) and Henry Silverman, chief executive

Mr Silverman refuses to comment on Mr Forbes's position, saying only that this is a matter for the board of directors.

But 80 per cent of Cendant's directors would need to vote for Mr Forbes to be dismissed.

As half the directors have been drawn from CUC, this is unlikely.

Furthermore, details have emerged of Mr Forbes's contract of employment. According to Cendant's latest proxy statement, he would be entitled to a multi-million-dollar pay-off if he left without becoming the chief executive.

However, Mr Forbes is not without his supporters. Some criticise Mr Silverman's decision to publicise his latest estimates of the accounting irregularities last week, several weeks ahead of a scheduled meeting of the company's audit committee. They say he may be attempting deliberately to undermine Mr Forbes's position.

The decision to publicise the estimates followed a sharp reduction in Cendant's share price last Monday, leading to allegations that they had been deliberately leaked.

Ernst & Young, CUC's auditors, said this week that it could not comment on the material misstatements which had been uncovered in CUC's accounts.

Ernst & Young said: "While claims of fraud have been made, no one has provided specific details about how this fraud was accomplished, by whom, or in what amounts."

It added: "From information provided by Cendant to the media, it appears that efforts may have been taken to deceive the auditors."

Telmex 'close to deal' on charges

By Henry Tricks in Mexico City

Telmex, Mexico's dominant telecommunications group, said yesterday it was close to agreement with competitors on lowering rates it charges them to use its local network. It was also negotiating new international rates with US carriers.

The level of Telmex's interconnection rates have brought a storm of criticism from its rivals this year, with some saying they are among the highest in the world.

They were, however, fairly immaterial to Telmex's solid 19 per cent rise in profits in the second quarter to 3.542bn pesos ($395m). Interconnection fees amounted to just 310m pesos.

Adolfo Cerezo, finance director, said Telmex was offering to backdate a drop in the fees to May this year rather than waiting until next year as scheduled.

Telmex was so confident agreement would be reached on the decline to 3.15 US cents a minute from 5 cents, it had calculated its second-quarter results using the lower figure since May, he said.

However, Mr Cerezo was less upbeat on the international settlement rates it is negotiating with US carriers on calls to Mexico. In the second quarter, Telmex booked $130m from the settlement rates, down from $164m in the same period in 1997 because of a 2 cents drop this year in the tariff, to 37.5 cents a minute.

Its US competitors AT&T and MCI are demanding far steeper reductions before reaching a benchmark rate of 19 cents a minute in 2000, and they have been supported by the Federal Communications Commission, the US regulator.

Telmex is under pressure to be flexible in order to obtain an FCC licence to operate in the US. Mr Cerezo said Telmex had made provisions in case it is forced to go below 37.5 cents. Analysts expect the rates to fall to about 33 cents.

Mr Cerezo said local business, where Telmex still has a monopoly, was thriving, even as competition weighed on its long-distance operations.

It sold 32m public telephone cards in the second quarter, a 33 per cent increase over the same period last year, making it the second biggest seller of phone cards in the world after France, he said.

The Telcel cellular subsidiary saw the number of subscribers soar 80 per cent year-on-year to 1.52m.

Daimler sees further savings from Chrysler

By Haig Simonian and Nikki Tait in St Thomas, Ontario

Jufgen Schrempp, chairman of Daimler-Benz, conceded yesterday that the original estimates for cost-savings from the $40bn merger with Chrysler of the US, could be "rather conservative".

Speaking at the launch of Daimler's new North American Sterling truck brand, Mr Schrempp said the initial estimates had been based on the work of a "handful of people" as the two companies first negotiated the merger arrangements. Since then, Daimler and Chrysler executives had held many more detailed meetings.

When the deal was announced in early May, Daimler and Chrysler said they expected savings of about $1.4bn in the first year, and about $3bn annually over three to five years.

About one-third of those savings were likely to come from combined buying and logistics efficiencies; one-third from sales distribution synergies; and 15-20 per cent from joint product development.

Mr Schrempp also confirmed yesterday that Daimler had been contacted by authorities about possible insider trading in Chrysler shares prior to the merger's announcement. "We have been informed and will co-operate fully," he said.

Separately, Mr Schrempp stressed Daimler-Benz's commercial vehicles division would remain crucial to the group after the takeover of Chrysler.

His group would also shortly confirm its entry to the "super luxury" car market with its Maybach brand.

The announcement, probably to coincide with half-year results next week, will intensify growing competition with Volkswagen after the German rival's acquisition of Rolls-Royce Motor Cars of the UK.

Mr Schrempp said talks with Chrysler were progressing on schedule, with executives from the two companies concentrating on issues such as the pooling of interests, tax, and inclusion on important stock indices.

The deal is expected to be approved by shareholders on September 18, though he conceded it was proving "an interesting job to meet the deadline".

Mr Schrempp said the two companies had decided not to start negotiations with potential Asian partners until their own deal was completed. It would "not be wise" to talk to an Asian manufacturer yet.

However, he confirmed Daimler-Benz's separate talks with Nissan Diesel, the big Japanese truckmaker controlled by Nissan Motor, were proceeding smoothly. The negotiations concern potential joint products, as well as co-operation on purchasing and manufacturing.

Nissan has said the discussions could include the sale of its 40 per cent stake in Nissan Diesel.

Mobil, Amoco facing cutbacks

By Christopher Parkes in Los Angeles

Mobil and Amoco may have to cut costs and capital spending to improve profits hit by the lowest oil prices in 12 years.

Mobil, reporting a 25 per cent drop in second-quarter earnings yesterday, said the uncertainty over the pace of economic recovery in Asia and the outlook for oil supplies obliged it to focus on "self-help" initiatives.

Amoco, which saw its net income more than halved to $287m, said US oil prices were more than $5 a barrel lower than last year. "We are not satisfied with the current level of earnings," said Laurance Fuller, chairman. It might be necessary "to further reduce costs and the pace of capital spending", he added.

The warnings followed similar cautions from Texaco, which this week said it might have to defer spending plans.

Mobil's earnings per share of 81 cents were in line with analysts' estimates, and compared with $1.06 last time. Allowing for extraordinary items, which included a charge for the group's European refining joint venture with British Petroleum, earnings were 79 cents.

This venture, one of the "self-help" measures designed to reduce the partners' costs, contributed $90m in savings during the quarter, Mobil said.

Lucio Noto, group chairman, said that such measures had contributed about $200m to earnings in the first half, and credited them with preventing earnings falling even lower.

The group's oil production fell during the quarter in the UK, Nigeria and Norway, compounding the effects of the price declines, and earnings from exploration and production dropped from $458m to $222m.

The company said its long-term objective was still to increase output by 4 per cent a year.

Lower margins for polyethylene and paraxylene led to a $33m fall in earnings from chemicals to $56m.

Chase and Citicorp shrug off Asia losses

By John Authers in New York

Wall Street seemed reassured yesterday that the largest US international banks had weathered the Asian crisis, with strong revenues from trading, and in some cases from retail banking, more than offsetting credit losses in the countries which sought help from the IMF.

Chase Manhattan, Citicorp and J. P. Morgan, the three US banks with the largest Asian exposures, all boosted second-quarter earnings per share by more than 10 per cent, while engineering dramatic reductions in their exposure to the region.

Analysts suggested that strong trading revenues, which had rebounded after heavy falls when several Asian currencies devalued in the fourth quarter last year, had allowed the banks to "earn their way through" the crisis.

Diane Glossman, banking analyst at Lehman Brothers, said: "They are earning their way through the Asian crisis without a hitch. That's a very significant issue which will ultimately be reflected in their valuation."

J. P. Morgan, which provided the most detailed record of its Asian problems, has reduced its exposures to counterparties in Indonesia, Malaysia, the Philippines, South Korea and Thailand to $3.4bn, down 44 per cent since the beginning of the year.

Net charge-offs of bad debts during the second quarter were $83m, mostly due to counterparties in South Korea and Indonesia. In spite of taking some $50m in losses on the sale of investment securities, J. P. Morgan still registered total return on proprietary investing and trading of $69m – up from $59m in the equivalent quarter of 1997.

Citicorp incurred credit costs of $93m in its emerging markets business during the second quarter, mostly in Indonesia and Thailand. This was a big increase on the $24m incurred in the second quarter last year.

Chase took total net charge-offs in Asia of $122m, and reduced its total exposure to Indonesia, Korea and Thailand to $6.2bn – 39 per cent below its level at the beginning of the year.

Marc Shapiro, Chase's chief financial officer, said he was "cautious" about the future for Asia, but added: "Unless the Asian financial situation deteriorates from here, you should see things getting better rather than worse as far as earnings are concerned."

All the banks noted a "flight to quality", with Citicorp adding $4.3bn in customer deposits, an increase of 30 per cent in local currency terms, in the Asia-Pacific region and Japan.

Morgan was able to increase its market-making revenues by 31 per cent in the second quarter, partly because of increased client flows in Asian local markets.

Eli Lilly boosted as Zyprexa sales double

By Tracy Corrigan

Strong sales growth in Zyprexa, Eli Lilly's schizophrenia drug, helped boost the US drug company's second-quarter earnings, reported yesterday. Lilly's net income rose to $491.3m, up 18 per cent on normalised 1997 numbers, on sales of $2.2bn, up 19 per cent.

The normalised 1997 earnings exclude the impact of the write-down of PCS, a business sale, and litigation costs.

Zyprexa sales of $327m, led by a strong showing in the US market, were up 110 per cent on the second quarter of 1997. Launched 21 months ago, Zyprexa sales in the US have exceeded $1bn to date. The company is close to completing research which could lead to further label indications for the treatment of psychoses associated with Alzheimer's dementia and the treatment of Parkinson's disease. The company has already sought approval from the US Food and Drug Administration to market the drug for the treatment of manic depression or bipolar disorder.

However, analysts said that the performance of Evista, the osteoporosis treatment, had been disappointing. The recently launched drug had sales of $15.2m in the second quarter. However, the company is also hoping to gain new indications for Evista, including breast and uterine cancer and osteoporosis prevention.

"They are spending a lot of money on research and development", to gain new indications for drugs, said Alex Zisson, pharmaceuticals analyst at Hambrecht & Quist.

Prozac, its blockbuster drug for the treatment of depression, continues to perform well in the US, where sales rose 16 per cent to $530.5m. However, sales outside the US fell 2 per cent to $135.9m, as a result of "unfavourable exchange rates and continued competitive pressures".

Mr Zisson said competition outside the US was mounting because the drug has started to come off patent. Lilly is currently working on a new proprietary Prozac formulation, at least one combination of Prozac with another proprietary drug and one or more new chemical entities for depression. Prozac could lose its patent in the US in 2001, but the company is confident another patent which runs to 2004 is enforceable.

AlliedSignal chief seeking acquisition

By Daniel Bögler and Richard Waters in New York

AlliedSignal is looking for an acquisition that would form a "third leg" to complement its aerospace and materials businesses.

Larry Bossidy, chairman and chief executive of the US manufacturer, said in an interview: "Strategically, we need a third leg to balance the group and deliver the consistency of earnings the market expects." The deal is just as likely to be in Europe as in the US, he added.

The group is one of the world's top suppliers of aerospace parts, as well as providing repair and overhaul services for airlines. It also owns an electronic materials and speciality chemicals business. But over the past two years it has sold the largest parts of its cyclical automotive component interests, once the largest division, to focus on more stable after-market businesses.

Any acquisition would have to be in a related area of manufacturing, have a strong technological base and good market shares, Mr Bossidy said. He added that he would rather buy into a new business than expand his existing divisions: "Getting bigger in our current businesses would not give us the diversity and consistency that a multi-product company like us needs."

AlliedSignal missed Wall Street's earnings estimates for the third quarter last year by a cent, due to problems in its automotive business. Although earnings per share still grew 16 per cent, the shares have sharply underperformed the stock market since. "We are being punished for not being consistent," said Mr Bossidy.

His model is General Electric, the US engineering and financial services group for which he used to work under chairman Jack Welch. "GE may be a little broad for us," he said. "But if you look at their multiple of 35 times [earnings] compared to our 20 times, that is a reward for diversity and consistency."

With most of its manufacturing capacity in the US – though overseas sales including indirect exports amount to 38 per cent of the total – the group is keen to build its operations in Europe and Asia. "If you look at where we have bought in the last three years," said Mr Bossidy. "It has been more in Europe than the US."

Right mindset, Page 8

NEWS DIGEST

INSURANCE

Allstate up 38% in spite of higher catastrophe losses

Allstate, the largest quoted US personal lines insurer, yesterday announced strong earnings for the second quarter, with a gain of 38 per cent in net profits to $885m compared with the second quarter of last year. The company achieved this despite being hit by higher catastrophe losses than expected, due to storms in the US during May and June. After-tax catastrophe losses were $197m for the quarter – more than double the $79m recorded in the second quarter of last year.

Allstate's results follow a warning on profits from Chubb, another large US insurer, which said catastrophe losses meant that its earnings would be below the level recorded in the second quarter last year. Travelers Property Casualty, the insurance arm of Travelers Group, also announced this week that it had suffered higher catastrophe losses than expected. Severe weather losses reduced their earnings per share, which totalled 78 cents, by 6 cents. In the equivalent quarter of 1997, catastrophe losses had only reduced earnings by 1 cent per share.

Total property liability revenues for Allstate were up 5.8 per cent to $5.48bn, continuing the trend for slow growth for the US insurance sector. Jerry Choate, Allstate's chief executive, described the marketplace as "increasingly competitive".
John Authers, New York

FOOD

Shake-up hurts Nabisco

Nabisco, the US foods group, registered a $200m loss in the latest quarter, as a restructuring charge and weak domestic biscuit sales took their toll. The company, which had warned of the problems a month ago, turned in a 29 per cent decline in underlying net income, before the impact of the $406m charge. Nabisco's shares, which fell sharply a month ago on warnings about the weakness, fell another $1 yesterday morning on the news to trade at $37¾.

Domestic business sales fell by 5 per cent to $864m, while revenues from the group's domestic foods division and international operations also fell slightly. As a result, total revenues declined by 3 per cent to $2.13bn. Underlying net income fell 29 per cent to $72m, or 27 cents a share: including the restructuring charge, the loss amounted to 76 cents a share. James Kilts, the recently appointed chief executive, called the results "disappointing".
Richard Waters, New York

BANKING

Travelers investors back merger

Travelers Group shareholders have approved a plan for the company to merge with Citicorp in a deal worth $70bn, a spokeswoman said. Citicorp shareholders were also expected to approve the merger yesterday. The largest merger in history will create Citigroup, combining Citicorp's commercial and consumer banking franchise with Travelers, an insurance and investment banking powerhouse. The deal, which still awaits approval by the Federal Reserve Board, is expected to close in the third quarter. **AP-DJ, New York**

RESEARCH

Deutsche in Birinyi link

Deutsche Bank Securities has entered an agreement with Birinyi Associates, a market analysis boutique, under which the firm will provide equity and equity index research to Deutsche Bank and its global customer base. Laszlo Birinyi, its founder, will become Deutsche's global equity trading strategist. Birinyi Associates will remain an independent firm.

Mr Birinyi said the agreement provided "an opportunity to share our approaches and ideas with an increasing customer base". He described the firm's agreement with Deutsche as "a consulting relationship" and said his firm would no longer do such work for other brokerages. Birinyi Associates, based in Greenwich, Connecticut, employs 11 staff.
Tracy Corrigan, New York

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

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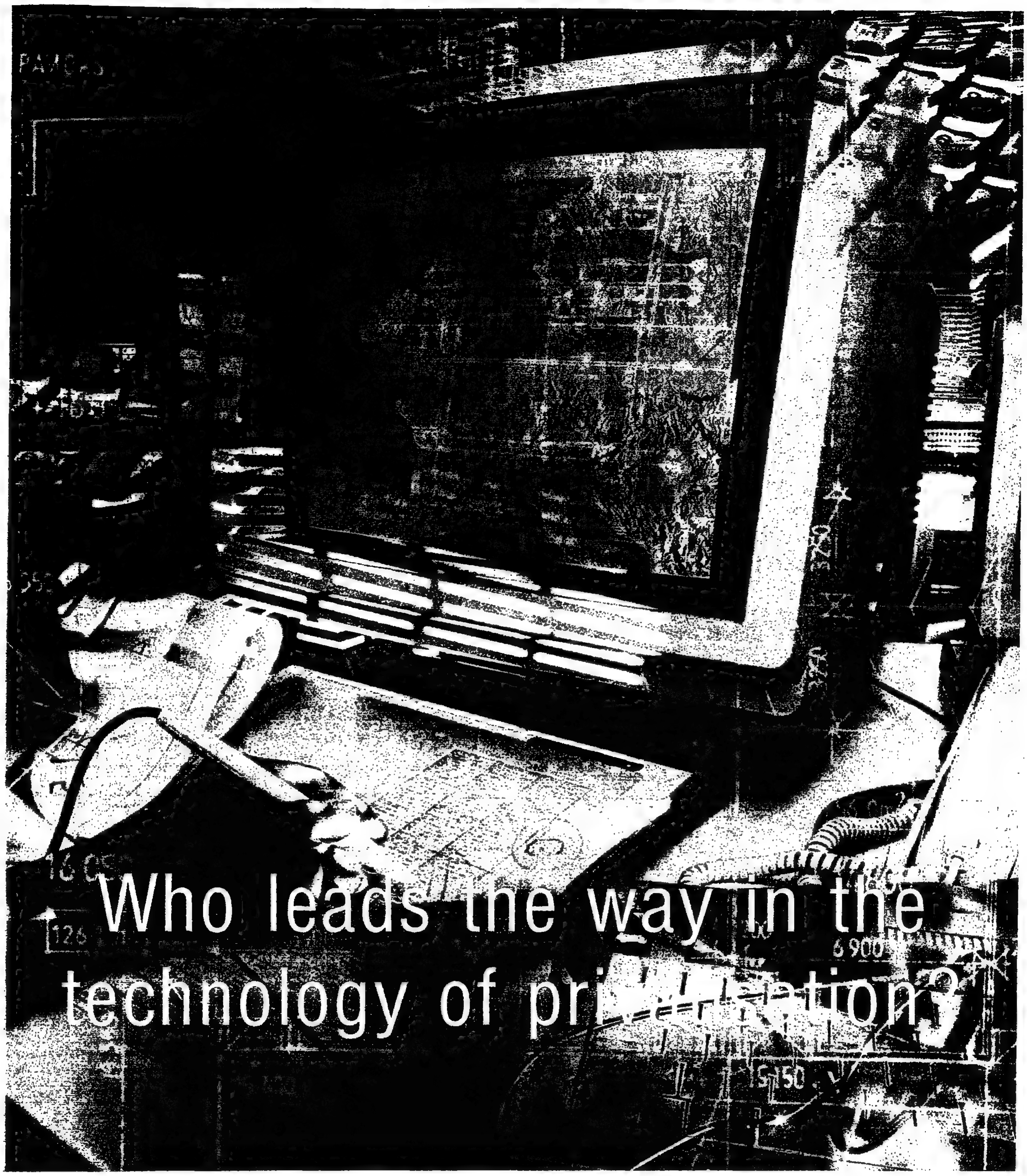

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ENTERTAINMENT ANALYSTS SPECULATE SEAGRAM MAY ATTEMPT TO REDUCE BID PRICE FURTHER FOLLOWING FALL IN PROFITS

PolyGram tumbles to Fl 23m in quarter

By Alice Rawsthorn

PolyGram, the Dutch entertainment group for which Seagram of Canada has bid US$10.4bn, yesterday reported a steep fall in second-quarter net income, to Fl 23m ($11.4m) against Fl 148m in the same period last year.

The fall reflects the uncertainty caused by Seagram's surprise bid, which is expected to lead to substantial job losses after it merges its Universal Music subsidiary with PolyGram's music interests.

Seagram has already renegotiated the price of its offer, originally pitched $200m higher at $10.6bn, with Philips, the Dutch electronics company that owns 75 per cent of PolyGram, to allow for the profits deterioration.

Analysts speculated yesterday that Seagram, which recently cleared the deal with US anti-trust regulators but faces a delay of several weeks before clearing it in Europe, might try to reduce the price again, if PolyGram's condition worsens. However, Seagram would be unable to do this unless it could prove there has been a "materially adverse change" in the business.

The fast-changing nature of the music industry means PolyGram's record labels and music publishing interests may find it difficult to sign acts or clinch new deals while their future is in doubt. There is also a risk of artists refusing to release material until the restructuring is completed, or trying to exploit the situation by demanding higher royalties or advances from PolyGram.

Jan Cook, former finance director who became chief executive last month after the departure of Alain Lévy, PolyGram's former president, said he hoped the "remaining approvals will be granted as quickly as possible for the benefit of our artists and employees".

PolyGram, which had reported a downturn in the first quarter, mustered a modest increase in net music sales from Fl 2.08bn to Fl 2.12bn in the three months to June 30. However, it suffered a sharp fall in music operating income, from Fl 276m to Fl 167m. The results were affected by Asia's economic instability, and higher marketing costs.

Second-quarter bestsellers included Hanson's *3 Car Garage* and DMX's *It's Dark And Hell Is Hot*, both of which sold more than 1m units. Previous releases by Andrea Bocelli, Shania Twain and All Saints also continue to sell well.

PolyGram expects releases by Sheryl Crow, Bryan Adams, Jacky Cheung and The Cardigans to be among its strong sellers during the second half of the year.

The group's film and television division, which has been put up for sale by Seagram for a tentative $750m, saw net sales rise to Fl 250m from Fl 240m during the second quarter. However, its operating loss deepened to Fl 99m from Fl 42m.

The film division, which has attracted interest from about 20 bidders including Canal Plus of France and Carlton, the UK media group, is not scheduled to break even until next year.

BCH up 32% at midway despite provisions

By Tom Burns in Madrid

Banco Central Hispano, the Spanish banking group, yesterday posted first-half net profits of Pta33bn ($218m), up 32.1 per cent on the same period last year, in spite of setting aside Pta36.7bn for general provisions.

The bank's earnings strength came from an improved balance sheet, following a rights issue in April which raised Pta163.8bn.

The fresh funds reflect ambitious plans for acquisitions in Latin America and of industrial assets in Spain. The results indicate BCH will comfortably meet its 1998 profit target of Pta65bn.

The advance was fuelled by improved margins in the core banking business. Net interest income rose 4.4 per cent, year-on-year to Pta159bn, and operating profit climbed 13.9 per cent to Pta79bn, in spite of a drop in trading income.

The quality of the balance sheet was underlined by 116 per cent coverage of non-performing loans, excluding mortgage-backed loans, against 92 per cent in the first half last year. The ratio of doubtful and bad debts to the total loan portfolio was just 1.8 per cent.

Provisions for loan losses dropped 16 per cent to Pta35bn, but recoveries and released provisions rose 19 per cent year-on-year to Pta25.2bn.

The high general provisioning allocation was put aside as a cushion for possible acquisitions and future goodwill amortisation. Adding the fresh funds from the rights issue to unrealised capital gains, the group has a capital surplus of Pta900bn for new investments.

Earlier this week, BCH paid about $180m for a 90 per cent stake in Banco de Santa Cruz, the biggest in Bolivia. The group has a strong position in Latin America through its partnership with Chile's Luksic group, and is now eyeing acquisitions in Argentina and Brazil.

International business, which includes stakes in Banco Comercial Portugués, Germany's Commerzbank and Banque Comercial du Maroc, as well as Latin American partnerships, contributed 31 per cent to group profits. This is expected to rise to 35 per cent.

In Spain, BCH plans to buy into Retevisión, the country's second telephone carrier, and will step up investment in utilities through an ongoing alliance with Endesa, the domestic power group in which it holds a 3 per cent stake.

● Banco Santander said yesterday it would push ahead with plans to raise its capital by Pta2.64bn ($16.2m) through a special 1-for-50 bonus share issue to investors, reports AP-DJ from Santander. It also said it would be the first Spanish bank to issue euro-denominated convertible debt, with two Pta50bn bond issues.

Acer earnings growth hurt by Asia crisis

By Peter Marsh

Acer of Taiwan, one of the world's biggest makers of personal computers, has warned of a slowdown in profits this year because of the Asian financial crisis.

Stan Shih, chairman and chief executive, declined to give a detailed forecast but said earnings growth this year would be less than in the past.

Mr Shih said during an interview in London that Acer had been affected by a reduction in demand for its computers and other products from Asia, which last year accounted for about 40 per cent of its $6.5bn sales.

The depreciation of the Taiwanese dollar against the US dollar, the currency which Acer normally uses when recording financial results, has also pushed down earnings growth when reported in the US currency.

Mr Shih also gave details of the company's plan to play a leading role in designing and making a new generation of computers which could sell for as little as $200.

He said by 2010, the industry world-wide could manufacture some 1bn of these devices a year, 10 times more than the number of personal computers sold now, with Acer responsible for about 10 per cent of the total.

Acer is attempting to form partnerships with other electronics and software companies to create the new computers, dubbed the XC machines. Rather than being general purpose systems, they would be dedicated to specific tasks such as home shopping or sending data over the internet.

"Less than 5 per cent of the world's population own a personal computer," said Mr Shih. "Computers [of the current generation] are still not reliable enough and are too difficult to use."

The Taiwanese company has grown strongly in recent years to become the world's second biggest maker of personal computers, including those it makes for other groups such as IBM.

Last year it made 6.25m computers, of which roughly half were sold under the Acer brand. This was second to Compaq of the US, which made 7.81m systems, according to industry statistics.

In 1997, Acer reported net earnings, excluding its joint venture with Texas Instruments of the US on memory chips, of $262m, 75 per cent up on the previous year. Including the chip operation, which suffered a loss after the rapidly falling prices of D-Rams (Dynamic random access memory chips), net profits were $89m, against $188m in 1996.

In March, Acer bought out the 34 per cent stake held by TI in this venture to take full control. It plans to turn it away from D-Rams and towards more sophisticated and profitable logic chips.

In April Acer, took over the computer-making operations in Augsburg, Germany, run by Siemens Nixdorf Information Systems, part of the Siemens electronics and electrical goods group. The Augsburg plant will continue to make computers for Siemens, and also be used to expand Acer's European manufacturing capabilities.

Stan Shih: Acer chief sees new generation of computers which could sell for as little as $200 Ashley Ashwood

Swisscom sets out plans for IPO

By William Hall in Zurich

Swisscom, Switzerland's state-owned telephone company, yesterday gave analysts their first peek at what could be Europe's biggest initial public offering this year. What was on offer was typically Swiss: a methodical presentation by conservative managers more interested in fine detail than flights of fancy about where Swisscom might be in 10 years.

Tony Reis, 56, Swisscom's chief executive, is not as charismatic as Deutsche Telekom's Ron Sommer. But Switzerland has an impressive record in building successful multinationals. Swisscom, according to one of its advisers, could turn out to be one of those companies that "under-sells itself but over-delivers".

Early estimates suggest the flotation of up to 49 per cent of Swisscom could raise about SFr10bn ($6.5bn). This would be roughly half as big as the $13.3bn Deutsche Telekom IPO in 1996 and close to France Telecom's $7.2bn IPO last year. France Telecom announced this week plans for another $6bn issue, showing there are plenty of European telecoms companies jostling for investors' attention.

Mr Reis, an ex-IBM manager, believes he can deliver "sustainable increases in turnover, cash flow and profit". Swisscom reported a net loss of SFr415m in 1997 after taking a SFr1.7bn restructuring charge. However, its operating margins, of about 40 per cent, are close to those of its European peers, and its 3.3 per cent growth in revenues, to SFr9.8bn, shows it can still grow its business in the face of falling prices and increased competition.

Leading European telecoms companies

	Mkt cap $bn	Annual growth* %	1999 P/E ratio	1999 yield %
British Telecom	86.2	4.8	20.0	3.0
Deutsche Telekom	84.1	(0.4)	22.7	3.4
France Telecom	69.5	4.0	24.4	2.3
Telefonica	53.6	3.4	17.5	1.9
Telecom Italia	44.5	6.2	16.9	2.9
KPN	21.6	4.5	14.3	4.4
Swisscom	13.0**	10.0**	n/a	n/a
Portugal Telecom	11.7	4.4	19.5	2.6
TeleDanmark	11.7	6.7	16.5	3.1
Average			19.3	2.9

* annual growth in earnings before interest, tax and depreciation (EBITDA) to 2001
** estimated
Source: FT and industry estimates

Growth in mobile telephony revenues – which have doubled over the past two years – more than offset the 3 per cent fall in fixed-line voice telephony. Less encouraging was the modest growth in data and multimedia services, which should be high-growth businesses, and the rapid rise in losses of international affiliates, from SFr103m in 1995 to SFr325m in 1997.

Switzerland, with 8m people, ranks 23rd in Europe, and is no larger than the US state of Maine. However, Swisscom ranks seventh in the world in terms of outgoing international calls, has one of the world's most modern digital telephone networks, and is a leader in mobile telephony.

Its management has been drawn largely from the private sector, and some of its new competitors are having serious teething troubles.

Sunrise, backed by British Telecom and TeleDanmark, has lost its first chief executive and failed to win one of the two new mobile phone licences. It is challenging the decision, but this is delaying the start of competition in the highly lucrative mobile phone market, which is by far the most profitable part of Swisscom's business.

Longer term, the combination of new competitors, falling prices and lost market share means Swisscom will do well to continue growing its revenues by 3 per cent a year. But if it can cut its costs by as much as some analysts expect, it should be able to increase its earnings by a double-digit rate over the next three to four years.

The final reason why Swisscom is hoping for a premium rating is that Swiss investors have a history of equity ownership.

While BT and Deutsche Telekom had to educate investors about the advantages of owning shares, the Swiss are more attuned to the risks and rewards of equity investment. About 20 per cent of Swiss adults own shares, compared with 5 per cent or less in the UK and Germany before their telecoms privatisations.

But Swisscom is not taking its domestic investor base for granted. Each of its 3.25m customers will receive details of the flotation, and, unlike previous Swiss IPOs, every retail investor will be treated the same. There will be no preferential treatment for customers of one bank over another, as has traditionally been the case.

Swisscom, which is also seeking a New York Stock Exchange listing, expects to raise SFr2.8bn of new equity on top of the money raised by the sale of the government's stake. This will still leave it more highly geared than many competitors.

But Swisscom's strong cash flow, double-digit earnings growth and a dividend yield that could come close to matching the 3.1 per cent offerred by Swiss government bonds should attract a strong stock market following in the short term.

The longer-term outlook, however, is more hazy. Allen Pyne, director of Schema, a London telecoms consultancy, notes that it is easy for former state-owned telecoms monopolies to report substantial profit increases in the first five to six years. After that, they have to prove they can compete with more nimble-footed rivals.

Swisscom, with its relatively small domestic market, will have to expand overseas if it is to continue to grow. Its international strategy is still in its infancy and remains largely untested.

Mr Reis may have to upgrade his presentational skills if he is to convince international investors that Swisscom is a good long-term investment.

Metsä and Södra win Latvian tender

By Greg McIvor in Stockholm

Södra of Sweden, the world's largest producer of market pulp, and Metsä-Serla, the Finnish forestry group, have won an international tender to build a $960m wood pulp mill in Latvia.

The project, one of the biggest foreign direct investments in the Baltic states, will be among Europe's largest pulp plants, with annual capacity of 600,000 tonnes.

Metsä and Södra, which fended off competition from Tolaram of Singapore and Enso of Finland, are seeking a majority stake in the mill.

The Latvian government is expected to own a smaller holding and outside investors, including Latvian companies and international financial institutions, may also be invited to participate.

The venture marks an intensification of attempts to commercialise the vast and largely unexploited forests of the former Soviet Baltic states. It also reflects a predicted shortage of pulpwood in western Europe as steadily increasing demand for paper-based products starts to strain sustainable supply, particularly among Scandinavia's big producers.

A Latvian agriculture ministry official said detailed discussions would start shortly with Södra and Metsäliitto, Metsä-Serla's dominant shareholder.

Tom Almgren, managing director of Södra Cell, Södra's pulp-producing division, said he expected an agreement to be ready by the end of the year.

However, he added that construction of the plant was more likely to start in 2000 than next year as originally envisaged.

Production would be likely to come on stream in late 2001.

Mr Almgren said the mill, Södra's first foreign production venture, would bolster its status as the leading producer of softwood pulp.

The mill is to be built on a greenfield site 160km south-east of Riga, the Latvian capital, near the Daugava river. Most output will be exported.

Little Swan awaits renminbi devaluation

By James Harding in Wuxi

Little Swan, China's leading washing machine manufacturer and one of the country's fastest-growing companies, has started to make preparations for a devaluation of the Chinese currency.

Its efforts to maximise holdings of US dollars underlines the suspicion in corporate China that Beijing will not be able to keep its commitment to maintain the exchange rate indefinitely.

Zhu Dekun, president of the company – based in Wuxi, eastern China – said: "We are preparing for a devaluation. We do not hope the renminbi will depreciate, but we are making preparations." Little Swan's export revenues have fallen 76 per cent in the first half this year, as Asia's financial crisis has disrupted markets and boosted the competitiveness of rivals. But the company, which has a marginal overseas business, has still achieved a modest increase in sales and profits.

Little Swan, which is listed on the exchange for foreign investors in Shenzhen, is expected to report a 5 per cent rise in turnover to about RMB935m ($113m) and a 6 per cent increase in pre-tax profits, when it announces its interim results next month.

The figures mark a substantial slowdown in the pace of growth at Little Swan, but a robust performance by the standards of many other white goods manufacturers in China.

"We have increased domestic sales volume, but we have not been able to compensate fully for the export losses," Mr Zhu said. Overseas business accounts for just 5 per cent of Little Swan's total sales.

Mr Zhu, who is one of the most respected chief executives in China having transformed Little Swan from a debt-laden subsidiary of a state-owned enterprise 10 years ago into one of China's best-known consumer brands, said in the light of the Asian crisis the company had adopted a highly cautious financial strategy.

The measures taken in readiness of a devaluation include increasing the levels of cash held on deposit in US dollars and ensuring no exposure to US dollar debt.

"We have to see what happens to the yen-dollar exchange rate," he said, suggesting a further slide in the value of the Japanese currency would test China's capacity to hold its currency steady.

NEWS DIGEST

THAILAND

Bad debt provisions push Phatra Thanakit into loss

Phatra Thanakit, Thailand's biggest finance house, yesterday reported a first-half unaudited loss of Bt2.71bn ($66m), compared with a Bt320m profit in the same period last year.

The company recently said its bad debt provisions at this stage would be Bt2.7bn, with an operating loss of Bt400m. The shareholders of Thai Farmers Bank – which hold 49 per cent of Phatra – agreed last week to buy out minority shareholders.

The poorer than expected bank profits this week means that the government will have to buy non-performing loans from at least some of the banks that have yet to recapitalise, according to Kenneth Ng at ING Barings. "They can't afford to nationalise half the sector so it is easier to take non-performing loans off them for a few years," he added.

Sirin Nimmanahaeminda, president of the state-controlled Krung Thai Bank, said Bt17.94bn in bad debt provisioning was responsible for Krung Thai's Bt12.92bn loss it reported for the first-half. Last year it made Bt3.79bn profit.

The 15 commercial banks made a total loss of Bt105,629bn in the half, compared with a profit of Bt73,621bn.
William Barnes, Bangkok

NICKEL

Resolute disposes of Bulong

Resolute, the Australian gold producer, has sold its Bulong nickel project in Western Australia to Preston Resources, an emerging Australian nickel group, for A$319m (US$200m).

Resolute will receive A$107m in cash and be issued A$39.5m worth of Preston shares to give it a stake of just under 20 per cent in the group, which is also developing the US$450m Marlborough nickel project in Queensland.

Preston, which has arranged a A$265m funding facility with Barclays Capital, the investment banking arm of Barclays Bank of the UK, will assume about A$172m of debt. Preston, which is also raising A$40m via a share placement, said Bulong would provide "substantial cash flows in the near term and the experience of its skilled workforce will greatly assist in the development of the Marlborough project".

Projected combined output from Bulong/Marlborough will be 37,000 tonnes of nickel a year and 3,000 tonnes of cobalt.

Resolute also unveiled schemes to buy back up to 30 per cent of its capital. **Russell Baker, Sydney**

PLASTICS

Montell to sell films unit

Montell, the plastics subsidiary of Royal Dutch/Shell, has agreed to sell its European and Australian polypropylene film business to one of north America's largest film manufacturers.

Montell, which until last year was a joint venture with Montedison of Italy, is to receive about $220m for the businesses, which last year had sales of about $200m and produced about 175,000 tonnes of film. The businesses, which include plants in Italy, Belgium, the UK and Australia are to be bought by Applied Extrusion Technologies.

Montell, which had sales of about $3.9bn last year, expected the deal would be completed within six months and said it would use the proceeds to reduce debt and fund expansion. It had decided to sell the businesses because of consolidation in the sector and because of their investment needs.
Virginia Marsh

JAPAN

Matsushita warns on profits

Matsushita Electric said yesterday its first-half operating profit could be about 70 per cent of the previous year's level, as sales to corporate customers remained sluggish. Motoi Matsuda, a Matsushita director, said Japan's personal consumer spending had hit bottom in the first quarter but that corporate spending remained extremely sluggish. **Reuters, Tokyo**

SECURITY SERVICES

Edison buys Secom subsidiary

Secom, Japan's largest security service company, is to sell its US residential security subsidiary to Edison Select, the US security group, in an effort to improve profitability by focusing on its lucrative commercial security operations.

The sale of Westec Residential Security is expected to be valued at $300m, although Secom said it would not release an official figure until the sale is completed in late August.

By withdrawing from the US home security market, the company would be better positioned to expand its security services to businesses. Westec Residential Security was part of Westec Security Group, a security company based in California that Secom purchased in 1982.
Alexandra Harney, Tokyo

MALAYSIA

Maybank on Creditwatch

Standard & Poor's, the international rating agency, yesterday put Malayan Banking's A- long-term and A-2 short-term ratings on Creditwatch with negative implications as the Malaysian economy moves sharply into recession. The bank, known as Maybank, is Malaysia's largest, with about one-fifth of the country's total banking assets, and therefore widely exposed to the economy. The Malaysian government has been pressing banks to increase credit to revive the economy, and S&P had already noted that Maybank's recent loan growth had been fast. This may result in higher levels of problem loans than in previous years. **Sheila McNulty, Kuala Lumpur**

ZINC SMELTING

Padaeng sells 36% stake

Padaeng Industry, Thailand's zinc smelter, said that Western Metals of Australia would buy a 36 per cent stake in the company. No price was given. Chitchai Thaveepanich, Padaeng president, said the new shareholder would secure long-term supplies of raw material, raise funds for operations and enable the Thai group to learn new mining technology. The sale will require the approval of the Stock Exchange of Thailand because individual foreign investors are not normally allowed to own stakes of more than 25 per cent in Thai companies.
William Barnes

OFFICE PRODUCTS

Flat quarter at Esselte

Esselte, the demerging Swedish office products group, yesterday reported flat second-quarter profits and sales. Pre-tax profits amounted to SKr115m ($14.5m), against SKr114m, on turnover of SKr2bn. The company, which this month agreed to sell a majority stake in Nielsen & Bainbridge, its US picture frame subsidiary, for $160m, blamed lower sales of office products in Denmark, Sweden and the UK caused by delivery problems linked to a strike in Denmark. Esselte's most-traded B shares eased SKr1 to SKr175. **Greg McIvor, Stockholm**

هكذا من الاصل

Deutsche Telekom

Initial Public Offering
US$13.5 billion
Joint Global Coordinator and Bookrunner
November 1996 Germany

Endesa
Secondary Offering
US$6.9 billion
Joint Global Coordinator and Bookrunner
June 1998 Spain

Lufthansa
Second largest privatisation in Germany
DM4.7 billion
Joint Global Coordinator and Bookrunner
October 1997 Germany

Telefónica
Telefónica de España, S.A.
Secondary Offering
US$4.4 billion
Joint Lead Manager and Bookrunner of the United Kingdom tranche
February 1997 Spain

Endesa
Secondary Offering
US$4.7 billion
Joint Lead Manager and Bookrunner for Continental Europe and the Rest of the World and Co-Lead of the United Kingdom tranche
October 1997 Spain

COELBA Companhia de Eletricidade do Estado da Bahia
Sale of 66% stake in Coelba to a consortium led by Iberdrola
US$1.6 billion
Joint Financial Adviser to the Government of the State of Bahia
July 1997 Brazil

ESEBA
Privatisation of the generation, transmission and distribution assets
US$1.4 billion
Joint Financial Adviser to the Government of the Province of Buenos Aires
May 1997 Argentina

COPEL
The largest primary offering from South America to date
US$575 million
Joint Global Coordinator and Joint Bookrunner
July 1997 Brazil

CEEE
Restructuring and sale of two electricity distribution companies resulting from the restructuring of CEEE
US$2.9 billion
Joint Financial Adviser to the Government of the State of Rio Grande do Sul
October 1997 Brazil

Videsh Sanchar Nigam Ltd (VSNL)
Largest ever Indian equity issue
US$527 million
Joint Global Coordinator and Bookrunner
March 1997 India

MOL
MOL Magyar Olaj- és Gázipari Rt.
Secondary Offering
US$315 million
Joint Global Coordinator
March 1998 Hungary

Beijing Datang Power Generation Co. Ltd
First Chinese state-owned enterprise to list its H-shares in the UK
US$460 million
Joint Lead Manager and Sponsor
March 1997 China

TATNEFT
Initial Public Offering
US$120 million
Global Coordinator
December 1996 Tatarstan

MOL
MOL Magyar Olaj- és Gázipari Rt.
Secondary Offering
US$240 million
Joint Global Coordinator and Bookrunner
May 1997 Hungary

ГАЗПРОМ
Gazprom
Initial Public Offering
US$429 million
Joint Global Coordinator
October 1996 Russia

This announcement appears as a matter of record only.

Dresdner Kleinwort Benson

MEDIA EQUITY TRADING AND COMPUTER SOFTWARE SUBSIDIARIES EXPERIENCE TOUGHER TRADING CONDITIONS

Reuters falls as strong pound takes toll

By John Gapper

Pre-tax profits at Reuters, the financial information group, dipped in the first half of the year as its Instinet equity trading subsidiary and Tibco software arm both encountered tougher trading conditions.

The rate of installations of its Reuters 3000 product, which competes more effectively with Bloomberg in offering data for fund managers to analyse portfolios, also slowed as it concentrated on selling to new customers.

Pre-tax profits for the six months to June fell from £303m – re-stated for the application of new accounting standards – to £294m ($485m).

The strength of sterling affected the results, with pre-tax profits rising 9 per cent at constant rates.

Reuters' push to sell lower-priced data to executives and customers of banks led to installations of products designed for use off trading floors rising from 39,000 to 72,000. The number of new installations of 3000 rose to 38,000, against 28,000 at the year-end.

About 30 per cent of the installations were to new customers rather than upgrades, compared with less than 20 per cent last year.

Peter Job, Reuters' chief executive, said the roll-out of Reuters 3000 was impressive compared with the record of both Bloomberg and Telerate.

"Telerate started in 1970, and only has 100,000 terminals after 28 years," he said.

Mr Job said that although revenues per customer for the company's information products were falling as it expanded its lower-priced range of products, margins were being preserved because distribution costs were lower.

Tibco, which provides software for internet distribution of Reuters data, recorded a loss of £3m, while Instinet profits fell from £77m to £75m as a result of competition from other electronic networks in the Nasdaq stock market.

Mr Job confirmed that Reuters was considering floating the non-financial division of Tibco, but said it doubted whether a suggested flotation price of $1.5bn could be raised. "That sounds like a rather fancy price," he said.

Revenues rose by 3 per cent – or 8 per cent at constant exchange rates – from £1.41bn to £1.45bn – and earnings per share increased 8 per cent, from 12.3p to 13.3p.

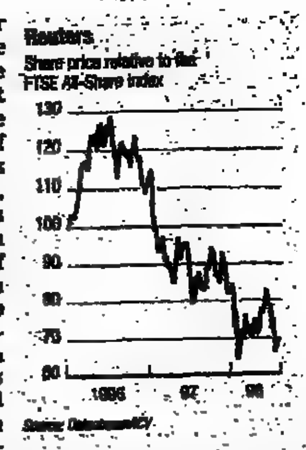
The interim dividend was lifted 10 per cent from 3.1p to 3.4p.

The Financial Reporting Review Panel disclosed separately that Reuters had agreed to restate its 1997 annual accounts, reflecting a different treatment of FRS10, the reporting standard on amortisation of goodwill.

The shares closed 1½p up at 632½p.

COMMENT

Reuters



Can it be any surprise dear old Reuters is so sensitive these days? Its shares have underperformed the market by nearly 40 per cent since January 1997. In part, of course, this reflects factors beyond management control, such as currency movements and a becalmed UK media sector. But that is just part of the story. Longer-term doubts centre on whether the group can recapture its high-growth status. To judge from yesterday's results, this is doubtful. True, there is still decent 18 per cent growth in the number of financial information accesses. This is no small achievement given consolidation among banking customers and ever-widening ripples from the Asian crisis. But that headline number disguises worrying trends. One is the slowing pace of Reuters 3000 installations. As an attempt to match Bloomberg's strength in fixed income data and analysis, the product has disappointed. Far from gaining a "Bloomberg-killer" product, Reuters itself is now skewered by a US criminal investigation into alleged illegal use of its rival's data.

Another concern lies with the 13 per cent fall in revenue per access. This reflects a push to attract new customers with lower priced off-trading floor products. Margins in these more commoditised products will be vulnerable. And with pricing pressures even reducing profits at its once-booming Instinet equity trading unit, the growth story of old is unconvincing.

JJB Sports/Sports Division

For sports retailers, the writing has been on the wall for some time now. New store openings have galloped ahead of demand and the happy convergence between sport and fashion, which has driven growth, has eroded. Trainers and replica clothing have given way to rugged outdoor wear. The only surprise is that consolidation has started not with the minnows, but the two largest players. Their incentives are clear enough: together they can compete less, save more and buy cheaper.

Those most threatened will be the other multiple chains, like JD Sports, Allsports and First Sport. Doubtless they will also consider protection through consolidation. Another option would be to return to their roots by selling more sports goods and less fashion. Earnings growth would be slower, but higher quality.

Nationwide conversion candidates defeated

By Christopher Brown-Humes

Nationwide building society is heading for a nailbiting finish to its conversion vote after yesterday announcing it had defeated two pro-conversion board candidates by a narrower-than-expected margin.

The society said the two rebels, Andrew Muir and Michael Hardern, had won about 40 per cent of the vote, against 60 per cent by three board candidates.

Whereas Mr Muir and Mr Hardern each won about 850,000 votes, the board candidates, including chairman Charles Nunneley, each won about 1.25m votes.

The result of the separate vote on whether Nationwide should be forced convert to a bank against its wishes will be announced at the society's annual meeting today.

Commentators believe this vote will be closer than for the board elections. Most believe the society will win the vote narrowly, although there were clear differences of opinion yesterday.

Last year Mr Hardern won about 330,000 votes, against 950,000 for the directors.

BC Partners backs £260m MBO at Hurst

By Cathy Newman

Hurst Publishing, publisher of the weekly car sales magazine Auto Trader, was bought yesterday for £260m ($430m) by BC Partners, a venture capital group which is backing efforts by the incumbent management to move the company into electronic publishing.

John Madjeski, chairman of Reading football club and co-founder of Hurst, made £174m on the sale. Mr Madjeski had a 67 per cent stake in the company, which he and Paul Gibbons, another entrepreneur, started in 1976. Mr Gibbons' 33 per cent stake made him £86m.

The company owns four of the 13 regional editions of Auto Trader. Guardian Media Group, owner of the Guardian and Observer newspapers, controls four editions, and five are jointly owned by Hurst and GMG.

Hurst also publishes other classified advertising titles in the UK and overseas. Its 52 publications have combined weekly sales of about 700,000 and in the year to March 31 turnover rose 22 per cent to £72m.

Simon Palley, senior partner at BC Partners, who is joining Hurst's board, said a "flotation, trade sale or a merger with GMG's Auto Trader interests" would be considered at some point.

Graham Luff, chief executive of Hurst, said Mr Madjeski had asked him to find a suitor once it was clear the company would have to become involved in electronic publishing. "He wasn't as in touch with the business," Mr Luff said.

He added that Hurst would focus on developing Auto Trader's internet and new media activities.

Hurst has had "early discussions" with Cable & Wireless Communications, the UK's biggest cable company, and British Sky Broadcasting, the satellite broadcaster, about providing content for digital television.

Mr Luff declined to say what his and other management members' shareholdings in Hurst would be. BC Partners, founded in 1986, specialises in European management buy-outs.

Mr Madjeski will remain president of Hurst.

JJB Sports and Sports Division in merger talks

By Robert Wright

JJB Sports and Sports Division are in merger discussions which could signal the start of a long-awaited rationalisation of the UK's fragmented sportswear industry.

The announcement sent JJB Sports shares up 54p to 533½p. JJB has been more profitable than Sports Division, with pre-tax profits of £34.2m ($56.4m) and sales of £204m for the year to January 31.

However, Sports Division, still privately held after coming close to floating this year, is the UK's largest sports retailer by sales. It is thought to have annual sales of about £300m and pre-tax profits of about £25m.

Mark Charnock, analyst at Charterhouse Tilney, said any merger between the two could trigger a wider wave of consolidation in the sportswear retailing industry. Already this year one sports retailer, Cobra, has called in receivers, faced with mounting competition in the sector.

There had also been fears that the ambitious expansion plans of the several quoted sports retailers – including John David Sports and Blacks Leisure – might lead to overcapacity in a market where demand is likely to grow less quickly.

Mr Charnock said: "JJB recognises there are a lot of players out there. It would be impossible for all those players to survive healthily."

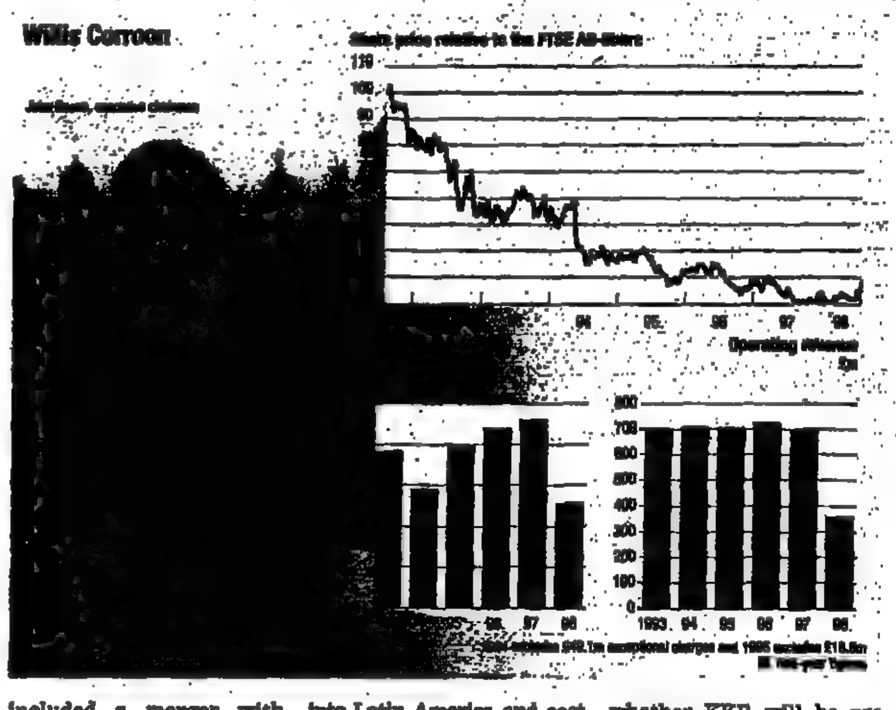
The merger would give the new group much greater bargaining power with the owners of the powerful sportswear brands which form an important part of sportswear retailers' ranges.

JJB and Sports Division are also the only two sportswear retailers well represented in edge of town sites as opposed to the high street. David Whelan, JJB's executive chairman and founder, recently said JJB was represented at only about one in six of the retail parks which justified a store. Sports Division would quickly offer access to far more.

The announcement was made in response to a sharp rise in JJB's share price, which opened at just 421½p on Monday. The statement said only that the companies were in talks about a possible deal which would lead to combination – no specific structure was mentioned.

Willis accepts buy-out and insures against merger

Competition and poor growth have made the broker rethink, writes **Christopher Adams**



As executive chairman of Willis Corroon, John Reeve has argued vigorously against merging with another insurance broker. All around him, rivals struggling in a difficult market have done exactly that. But down that route lies failure, he believes: mergers carry an unacceptably high level of risk; staff defect and clients go with them. Willis Faber learned this painful lesson from its disastrous merger with Corroon & Black in 1990.

Like its competitors, though, Willis has been struggling with limited growth. Competition has intensified and premium rates for commercial insurance have fallen steeply. More companies are shouldering the burden of their risks themselves, and learning how to manage it. Fee-based advice work is replacing transactional broking, adding to the competition and requiring investment at the same time. Moreover, multinational clients want an international presence.

Difficulties have recently intensified. Pre-tax profits last year fell from £48.1m ($79m) to £45.7m. In May, Willis was forced to close a US-based professional liability subsidiary, Plum, for which it has taken a £29.8m goodwill write-off.

Yesterday, it announced a £25m increase in provisions for the cost of the pensions mis-selling review. "Willis doesn't have much financial flexibility," said Kevin Ryan, insurance analyst at Nikko Europe. "It's been endless pain and it must be very difficult to restructure when you're under the spotlight of quarterly figures and your share price is doing nothing for you."

Willis Corroon's core business is reinsurance broking, or arranging cover and providing advice for conventional insurers, the world's primary risk carriers. The group also specialises in aerospace, marine, energy and international property risk. It advises many of Britain's biggest companies and has a joint venture with Abbey National, the country's second biggest financial adviser. It is also the fourth largest commercial retail broker in North America, where it has built up a large client base in the construction sector.

But acquisitions last year by Aon and Marsh & McLennan, the US-based brokers, left Willis and its UK-based rival Sedgwick subject to intense speculation about their futures.

Mr Reeve said that the company had examined several options, thought to have included a merger with Sedgwick: "But if you try to put people businesses together, you're going to get enormous fall-out."

The deal with Kohlberg Kravis Roberts, he said, would end that uncertainty.

The group will accelerate a programme that has been cutting costs and refocusing the business. Mr Reeve wants to use the deep pockets of KKR to make acquisitions in the reinsurance broking sector and expand into Latin America and east Asia.

For its part KKR, a US-based private equity fund specialising in leveraged buy-outs, is acquiring a business that is highly cash-generative. Insurance brokers traditionally have a low level of capital expenditure and earn investment income while holding funds on behalf of clients. This is the biggest investment by the fund in Europe to date.

But analysts question whether KKR will be prepared to provide the capital for Willis to reposition itself in a fiercely competitive market. "They're not providing much more than debt," said one. "Willis is a mature business in a mature industry, facing a shrinking market. In this case, you could view it as a cash cow." A counter-bid from another broker keen to extract operational synergies from a deal with Willis could yet emerge.

Deal shows taste for 'people businesses'

Willis Corroon, the London-based insurance broking group, has become the latest UK "people business" to be taken over in a leveraged buy-out where a company's assets are dwarfed by the size of the transaction.

Yesterday's deal follows the recent acquisition of Thorn, the electronics group, by Nomura for £980m in a deal that involves the securitisation of Thorn's assets – issuing securities backed by Thorn's cash flows.

The £951m bid for Willis Corroon by Kohlberg Kravis Roberts, the US leveraged buy-out specialist, is slightly different in that it will be financed through a mixture of debt and equity. But the debt portion, representing some 65 per cent of the total cost, is secured on the target company's future cash flows and profits – it had revenues of £694m in 1997. The price includes up to £100m of transaction costs and debt refinancing. Bankers said yesterday there was a growing trend in the US towards cash-flow financing of takeovers, particularly in the high-technology and biotechnology sectors, which are "knowledge" or "people" businesses – their main assets being experienced executives and intellectual property. This contrasted with the traditional funding method for leveraged buy-outs of securing borrowings on the fixed assets of targets.

KKR will have an initial 81 per cent stake in Trinity Acquisition, the vehicle created to buy Willis Corroon. It is investing £165m in equity in Trinity, and putting up a $575m bridging loan that bankers said would be refinanced at a later stage through an issue of high-yield bonds.

The five insurance companies acting with KKR – Guardian Royal Exchange, Royal & Sun Alliance, Chubb, Hartford Financial Services and Travelers Casualty Property – are investing a combined £193m, including £155m in an issue of preference shares. Trinity will therefore have a total of £360m in ordinary and preference shares.

The additional financing is a $475m syndicated loan being arranged by Chase Manhattan, which will be classed as senior debt when the acquisition has been completed. The loan is secured on Willis Corroon's net assets, amounting to £155m, and on future cash flows and profits.

The 35-65 equity-to-debt financing structure reflected the limit to which the transaction could be leveraged further, said bankers. "Willis Corroon has been a pretty unexciting company in the past few years but has had reasonably steady cash flows. This allows for a certain amount of leverage," one said.

The structure of the financing reflected the intention of KKR and the five insurance companies to expand Willis Corroon's operations, and the desire of the insurers to maintain a fourth force in global insurance broking alongside Aon and J&H Marsh & McLennan of the US and Sedgwick of the UK.

The financing package is slightly larger than the price offered, reflecting exchange rate factors in the dollar/sterling tranches and the acquisition of some debt.

Vincent Boland

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
African Lakes	6 mths to Mar 31	7.16	(8.31)	0.437▼	(0.258L)	0.95†	(5L)	-	-	-	-	nil
Allied Textile	6 mths to Mar 31 ★	109.7	(116.9)	4.77	(4.71)	4.84	(4.46)	2.85	Sept 30	2.75	-	8.45
CLM Insurance	6 mths to June 30	-	(-)	1.6	(1.5)	1.24	(1.17)	1.8	Aug 28	1.68	-	12.89
Kingfisher Leisure ф	Yr to May 3	10.4	(9.84)	1.07	(0.931)	9.2	(14.8)	1.33	-	-	2	-
Medeva	6 mths to June 30	148.3	(156.6)	38.7	(45.8)	7.2	(8.5)	2大	Oct 12	1.9大	-	5.5大
[illegible]	6 mths to June 30 ★	1,453	(1,409)	294	(303)	13.3‡	(12.3)	3.4	Sept 8	3.1	-	13
Stanley Leisure	Yr to May 3	454.9	(406.8)	23.9	(19.4♠)	14.8	(11.7)	3.2	Sept 21	2.8	4.6	4
Sunderland	Yr to May 31	18.8	(13.4)	0.584	(3.08)	6.1†	(44.5)	3.2	Nov 4	3.2	4.8	3.2
Uno	Yr to Apr 25	98.1	(41.1)	4.54♠	(0.862♠)	18.04†	(2)	4.15	Sept 9	3	6	4.5
Waste Management	6 mths to June 30	450.6	(560.1)	67.2	(69.1)	8.5	(8.7)	-	-	-	-	-
WF Electrical	Yr to Apr 30	180.5	(113.3)	8.26	(6.65)	41.93	(31.1)	13	Oct 20	11	17.7	15
Willis Corroon	6 mths to June 30	259.1■	(358.9■)	3.9♠	(80.2)	2.4L	(8)	1.75φ	Oct 1	1.65	-	6.8

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Geared Income	3 mths to June 30 ★	95.02	(44.12)	2.49	(0.956)	1.24†	(0.81)	0.875	Aug 28	0.875	-	4.45
MC Moorgate	Yr to May 31	228.79	(185.16)	1.67	(1.43)	5.67	(5.08)	3.15	Sept 18	3	4.95	4.8
Schroder Emerging	Yr to May 31	74.19	(101.33)	0.141L	(0.098)	0.15L	(0.1)	-	-	-	-	-
Yeoman	6 mths to June 30	631.7	(473.4)	2.33	(1.89)	9.47	(7.66)	6.25	Sept 23	6	-	16.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. 大Foreign income dividend. ♠After exceptional charge. ▼After exceptional credit. †On increased capital. ‡On reduced capital. ■Total income. φThird interim; makes 5.25p to date. фAim stock.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

EURO PRICES

EQUITIES

US sends Europe tumbling

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

European markets fell sharply yesterday in reaction to negative US news, and the FTSE Eurotop 100 index ended down 59.10 points at 2,996.93, a drop of 1.93 per cent.

The more hawkish tone set by Mr Alan Greenspan, the chairman of the US Federal Reserve, in his Humphrey-Hawkins congressional testimony continued to unsettle Euopean markets, which also had to contend with a raft of profit warnings from US companies and a weak opening on Wall Street.

The FTSE Eurotop 300 index closed at 1,298.47, down 23.48, while the Ebloc 100, which tracks companies from countries joining monetary union in the first wave, ended at 1,103.32, down 19.38.

The London market was weaker than monetary union bloc nations, with the Eurotop 300 sub-index for the UK losing 2.29 per cent, against 1.69 per cent for the Euro bloc sub-index.

Stocks retreated across the board, with not a single sector in positive territory. The worst performer was property, down 3.43 per cent.

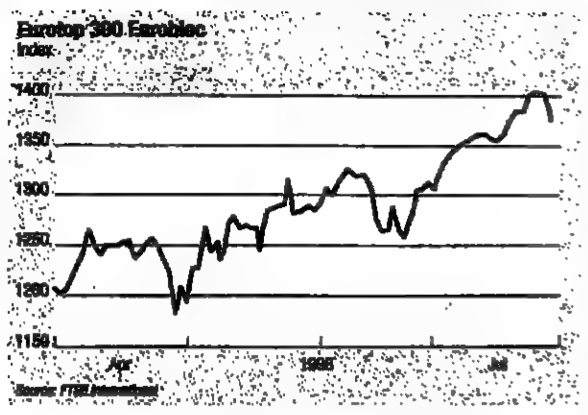
Chemicals fell 2.70 per cent while the electronics and electrical sector dipped 2.49 per cent. Ericsson of Sweden lost Ecu 1.4 to close at Ecu 28.61, while Nokia A dropped Ecu Ecu 0.8 to Ecu 79.86.

Both companies have enjoyed strong runs in recent weeks ahead of results and dealers attributed the drop to profit-taking.

Among other sectors, engineering fell 2.51 per cent, leisure and hotels 2.67 per cent, and distribution 2.96 per cent.

Meanwhile, a European strategy report from Dresdner Kleinwort Benson argued that the EU directive on takeovers could become law within a year, following an announcement by the Austrian presidency of the EU that it intended to make the issue a priority.

The report argued that this would discourage bids for quoted companies, particularly in countries which had a more inflexible, informal environment for takeovers – notably the UK, but to a lesser extent Germany, Sweden and the Netherlands. If the legislation looked like coming into force, a final takeover binge could be expected.



THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.910	95.890	-0.015	95.910	95.895	391	18303
Dec	-	96.110	-0.020	-	-	0	7398
Mar	-	96.050	-0.025	-	-	0	4776
Jun	-	95.940	-0.035	-	-	0	1900

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Aug	Sep	Oct	Dec	PUTS Aug	Sep	Oct	Dec
95900	0	0.010	0.130	0.180	0.115	0.120	0.020	0.050
96125	0	0			0.235	0.235		

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3050.0	3031.0	-47.0	3060.0	3050.0	5	1146
Dec	-	3066.0	-37.0	-	-	0	73

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2875 C	2875 P	2900 C	2900 P	2925 C	2925 P	2950 C	2950 P	2975 C	2975 P	3000 C	3000 P	3025 C	3025 P	3050 C	3050 P
Aug	176	30	155	35	137	41	119	48	102	56	86	65	73	76	59	86
Sep	215	60	180	67	176	74	162	88	146	91	131	101	116	111	103	123

[illegible]

OTHER INDICES

	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3561.79	3628.75	3670.82	3670.82	2574.51	3670.82	2078.42
DJ Euro Stx 50	3582.12	3648.96	3646.04	3658.48	2466.61	3658.48	2065.52
MSCI Europe	1306.83	1315.59*	1311.37	1315.65	980.50	1315.65	510.78

Source: Datastream of FT Information. *Subject to revision next day. (u) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

July 22 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	p/e adj yld	Total retn (Ecu)
FTSE Eurotop 300	1298.47	-1.78	-23.48	2.22	19.35	1329.60
FTSE Eurotop 100	2996.93	-1.93	-59.10	2.21	25.81	1088.34
FTSE Ebloc 100	1103.32	-1.73	-19.38	1.99	12.55	1116.87
FTSE Eurotop 300 Regions						
Eurobloc	1378.86	-1.67	-23.35	1.91	18.82	1404.94
UK	1181.41	-2.29	-27.38	2.84	22.11	1208.99
Europe Ex-Eurobloc	1231.79	-1.88	-23.77	2.57	18.83	1264.81
Europe Ex-UK	1375.02	-1.53	-21.39	1.94	17.79	1398.03
FTSE Eurotop Industry Sectors						
RESOURCES	989.42	-1.11	-10.93	2.97	20.25	1003.16
Extractive Industries	823.87	-1.25	-10.44	3.17	0.00	823.87
Oil, Integrated	934.25	-1.08	-10.22	2.95	11.44	947.40
Oil, Exploration & Prod	914.32	-2.52	-23.66	2.68	0.00	914.32
GENERAL INDUSTRIES	1282.08	-2.07	-26.63	2.32	18.37	1285.06
Construction	1017.99	-0.11	-1.08	2.53	11.86	1028.83
Building Matls & Merchs	1048.66	-1.41	-15.03	2.54	7.66	1055.96
Chemicals	1052.38	-2.70	-28.40	2.85	15.96	1079.26
Diversified Industrials	1033.97	-2.43	-25.79	2.14	16.30	1050.26
Electronic & Elect Equip	1123.12	-2.49	-28.68	1.82	3.25	1128.64
Engineering	1040.66	-2.51	-26.78	3.18	8.46	1049.20
Paper, Pckg & Printing	940.58	-1.01	-9.59	2.51	1.21	942.15
CONSUMER GOODS	1202.18	-1.78	-21.49	1.82	13.49	1228.51
Automobiles	1150.18	-0.45	-5.21	2.28	10.25	1180.85
Alcoholic Beverages	1019.23	-1.41	-14.56	2.18	5.82	1025.34
Food Producers	1076.28	-1.41	-15.41	1.57	8.79	1085.32
Household Goods & Texts	1110.47	-1.34	-15.08	1.88	7.01	1117.72
Healthcare	1042.89	-1.52	-16.12	8.22	9.82	1053.29
Pharmaceuticals	1007.84	-2.15	-22.18	1.33	2.07	1003.76
Tobacco	1160.43	-0.72	-8.36	3.70	1.81	1162.81
SERVICES	1284.19	-1.83	-23.91	2.12	16.79	1313.00
Distribution	960.57	-2.96	-29.00	2.29	11.37	961.24
Leisure & Hotels	944.45	-2.67	-25.94	2.85	8.12	951.69
Media	1082.54	-0.83	-9.13	2.12	3.92	1096.65
Retailers, Food	1071.59	-1.58	-17.24	2.82	9.18	1081.51
Retailers, General	1016.82	-1.87	-19.42	3.30	13.94	1030.46
Telecommunications	1183.67	-2.07	-25.03	1.78	8.28	1193.15
Breweries, Pubs & Rests	945.67	-1.70	-16.41	3.19	8.80	955.24
Support Services	1080.14	-1.86	-20.92	0.83	5.60	1085.39
Transport	1102.37	-2.01	-22.89	2.22	10.96	1113.87
Information Technology	1286.37	-1.45	-18.92	0.32	2.23	1289.30
UTILITIES	1418.66	-0.71	-10.20	3.17	53.32	1493.39
Electricity	1051.49	-0.24	-2.58	3.36	28.23	1080.84
Gas Distribution	1134.09	-1.91	-22.11	1.65	84.81	1238.53
Water	1077.15	-1.00	-10.83	4.82	36.72	1118.29
FINANCIALS	1479.48	-1.86	-28.07	2.26	21.49	1512.02
Banks,Retail	1054.37	-1.98	-21.28	2.82	8.20	1063.10
Insurance	1113.13	-1.38	-15.50	1.20	8.87	1123.05
Life Insurance	1234.31	-2.37	-28.90	1.72	5.38	1240.54
Other Financial	1067.24	-2.42	-26.46	1.90	13.23	1081.33
Investment Companies	1081.98	-1.64	-17.65	2.36	20.66	1081.84
Property	788.41	-3.43	-28.04	3.45	16.01	802.90

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap (Ecu bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
[illegible]					
AUTOMOBILES					
[illegible]					
BANKS RETAIL					
[illegible]					
BREWERIES, PUBS & RESTAURANTS					
[illegible]					
BUILDING MATERIALS & MERCHANTS					
[illegible]					
CHEMICALS					
[illegible]					
CONSTRUCTION					
[illegible]					
DISTRIBUTORS					
[illegible]					
DIVERSIFIED INDUSTRIALS					
[illegible]					
ELECTRICITY					
[illegible]					
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]					
ENGINEERING					
[illegible]					
EXTRACTIVE INDUSTRIES					
[illegible]					
FOOD PRODUCERS					
[illegible]					
GAS DISTRIBUTION					
[illegible]					
HEALTH CARE					
[illegible]					
HOUSEHOLD GOODS & TEXTILES					
[illegible]					
INFORMATION TECHNOLOGY					
[illegible]					
INSURANCE					
[illegible]					
INVESTMENT COMPANIES					
[illegible]					
LEISURE & HOTELS					
[illegible]					
LIFE INSURANCE					
[illegible]					
MEDIA					
[illegible]					
OIL, EXPLORATION & PRODUCTION					
[illegible]					
OIL, INTEGRATED					
[illegible]					
OTHER FINANCIAL					
[illegible]					
PAPER PACKAGING & PRINTING					
[illegible]					
PHARMACEUTICALS					
[illegible]					
PROPERTY					
[illegible]					
RETAILERS, FOOD					
[illegible]					
RETAILERS, GENERAL					
[illegible]					
SUPPORT SERVICES					
[illegible]					
TELECOMMUNICATIONS					
[illegible]					
TOBACCO					
[illegible]					
TRANSPORT					
[illegible]					
WATER					
[illegible]					

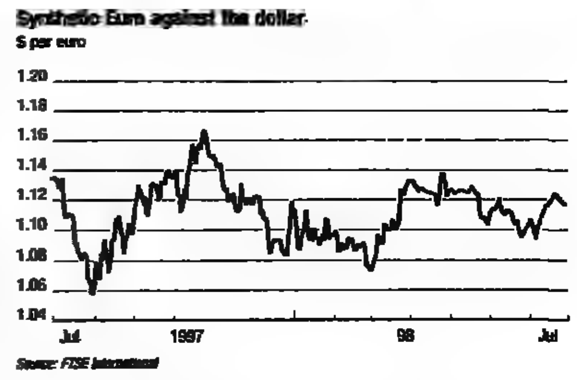
Notes: [illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jul 22	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.068575	+0.0083	+0.06	+0.0092	+0.06
Belgium	BEF	41.243451	+0.0181	+0.04	+0.0138	+0.03
Czech Republic	CZK	34.913463	+0.1135	+0.33	-0.7361	-2.06
Denmark	DKK	7.619328	+0.0011	+0.01	-0.0016	+0.02
Finland	FIM	6.077101	-0.0005	-0.01	+0.0000	+0.00
France	FRF	6.701223	-0.0008	-0.01	-0.0022	-0.03
Germany	DEM	1.999314	+0.0008	+0.00	-0.0001	+0.00
Greece	GRD	331.805606	-0.1435	-0.04	-1.5359	-0.46
Hungary	HUF	242.084765	+0.2967	+0.12	+0.1408	+0.06
Ireland	IEP	0.795262	-0.0000	+0.00	+0.0005	+0.07
Italy	ITL	1971.791691	+0.0633	+0.00	+0.6881	+0.03
Luxembourg	LUF	41.243451	+0.0181	+0.04	+0.0138	+0.03
Netherlands	NLG	2.253652	+0.0001	+0.01	-0.0001	-0.01
Norway	NOK	8.451223	-0.0039	-0.05	-0.0251	-0.30
Poland	PLN	3.849128	+0.0059	+0.15	+0.0167	+0.44
Portugal	PTE	204.464351	-0.1247	-0.06	-0.0758	-0.04
Romania	ROL	9738.657251	-22.4528	-0.23	+157.0408	+1.64
Russia	RUB	6.978115	+0.0187	+0.27	+0.1000	+1.45
Slovakia	SKK	38.697834	-0.1285	-0.33	-0.2275	-0.57
Spain	ESP	169.679844	+0.0194	+0.01	+0.0152	+0.01
Sweden	SEK	8.889002	-0.0079	-0.09	-0.0233	-0.26
Switzerland	CHF	1.660044	+0.0007	+0.04	+0.0088	+0.53
United Kingdom	GBP	0.680509	+0.0015	+0.22	+0.0017	+0.26
ECU	ECU	1.012441	+0.0001	+0.01	+0.0009	+0.09
Americas						
Brazil	BRL	1.298376	+0.0003	+0.00	+0.0109	+0.85
Canada	CAD	1.668830	+0.0000	+0.00	+0.0229	+1.39
Mexico	MXN	9.802763	+0.0500	+0.51	+0.0894	+0.91
United States	USD	1.116498	-0.0019	-0.17	+0.0078	+0.68
Pacific/Middle East/Africa						
Australia	AUD	1.798089	+0.0152	+0.85	+0.0202	+1.14
Hong Kong	HKD	8.647638	-0.0164	-0.19	+0.0543	+0.63
Japan	JPY	157.415109	+0.6837	+0.44	+1.6866	+1.08
Singapore	SGD	1.908634	-0.0027	-0.14	+0.0285	+1.51
South Africa	ZAR	7.011610	-0.0457	-0.65	+0.2112	+3.11

Source: FTSE International Ltd.This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying BDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3264, FRF 0.2217, ITL 0.1823, NLG 0.0677, BEF 0.0388, ESP 0.0946, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.



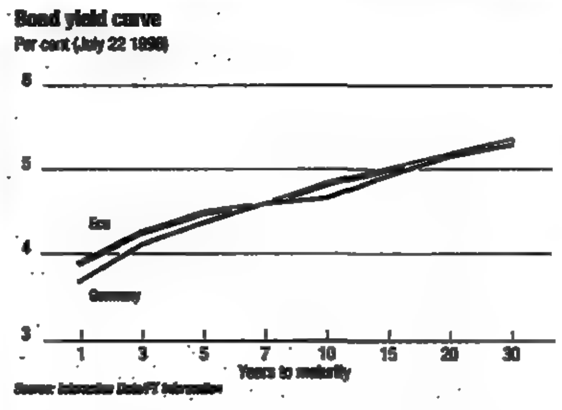
EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Jul 22	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0359	+0.01	+0.00	7.0377	3.67	+0.06
Belgium	20.6255	20.6288	+0.02	-0.02	20.6334	3.66	+0.05
France	3.35386	3.3518	-0.06	-0.03	3.352	3.62	+0.01
Finland	3.04001	3.0398	-0.01	-0.02	3.04	3.64	+0.03
Ireland	0.402578	0.3977	-1.24	-1.29	0.4018	5.84	+2.23
Italy	990.002	986.2344	-0.38	-0.42	990.3656	4.56	+0.95
Luxembourg	20.6255	20.6288	+0.02	-0.02	20.6334	3.66	+0.05
Netherlands	1.12674	1.1272	+0.04	+0.04	1.1269	3.55	-0.06
Portugal	102.505	102.2673	-0.23	-0.20	102.5017	4.13	+0.52
Spain	85.0722	84.869	-0.24	-0.25	85.1042	4.24	+0.63
Germany	1		+0.00	+0.00		3.61	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3. forward rates are exchange rates to 31/12/98 interpolated from market quotes. forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS



GOVERNMENT BOND SPREADS vs ECU

Jul 22	2 yrs	5 yrs	7 yrs	10 yrs	15 yrs	30 yrs
"Ins"						
Austria	-0.03	-0.04	+0.08	+0.03	+0.06	+0.05
Belgium	-0.01	-0.03	+0.10	+0.06	+0.07	+0.11
Finland	-0.19	-0.01	+0.11	+0.04	-0.39	-0.48
France	-0.10	-0.11	-0.04	-0.04	-0.05	-0.02
Germany	-0.18	-0.11	+0.02	-0.18	+0.01	-0.05
Ireland	+0.60	+0.02	+0.11	+0.14	+0.17	+0.35
Italy	+0.24	+0.13	+0.17	+0.12	+0.12	+0.19
Luxembourg	-0.01	-0.03	+0.10	+0.06	+0.07	+0.11
Netherlands	-0.10	-0.09	-0.01	-0.06	+0.00	-0.03
Portugal	+0.12	+0.10	+0.17	+0.15	+0.34	+0.37
Spain	+0.03	+0.03	+0.12	+0.14	+0.19	+0.31
"Outs"						
Denmark	+0.23	+0.14	+0.22	+0.12	+0.08	+0.22
Greece	+5.45	+4.14	+3.48	+2.88	+2.35	+2.17
Sweden	+0.16	+0.10	+0.18	+0.06	+0.09	-0.09
UK	+1.88	+1.78	+1.48	+0.88	+0.58	+0.18

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Jul 22	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	108.570	4.88	+0.01	-0.07	+0.05
France (Rep of)	04/08	5.250	N/A	103.580	4.78	+0.02	-0.08	-0.05
Italy (Rep of)	05/08	5.000	AA	100.790	4.90	+0.02	-0.06	+0.07
Portugal (Rep of)	06/08	5.375	AA-	103.450	4.93	+0.04	-0.06	+0.10
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	101.250	4.58	+0.00	-0.09	+0.06
Gen Electric Cap Crp	10/04	6.500	N/A	104.510	4.64	+0.03	-0.10	+0.18
Oest Kontrollbank	04/08	5.250	AAA	102.380	4.93	+0.02	-0.08	+0.10
Cred Local de France	04/08	5.250	N/A	101.400	5.06	+0.01	-0.09	+0.23
Ecu Issues								
Bayer Hypo & Wcb Bk	07/01	5.000	AA-	101.570	4.42	+0.02	-0.13	+0.18
Cred Foncier France	03/04	8.375	A	115.610	5.11	+0.00	-0.11	+0.57
Euro Inv Bank	04/04	5.250	AAA	103.840	4.47	+0.04	-0.08	-0.07
ABN Amro Hldg. NV	04/07	6.375	AA-	109.330	5.18	+0.01	-0.08	+0.39

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency; Ecu bonds are [illegible] to Euros 1/1/99.

EUROZONE CREDIT SPREADS vs ECU

Jul 22	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.03	+0.01	+0.02
France Telecom	AA+	11/08	5.250	FRF	+0.17	+0.16	+0.14
Halifax	AA	07/07	5.625	DEM	+0.17	+0.18	+0.20
Ing Bank NV	AA-	01/08	5.500	NLG	+0.15	+0.19	+0.20
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.28	+0.30	+0.29
Cred Foncier	A	02/03	7.250	DEM	+0.30	+0.30	+0.36
Thomson-Brandt Int	A-	03/04	8.375	FRF	+0.35	+0.37	+0.36
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.32	+0.33	+0.31
Bank of China	BBB	07/09	7.125	DEM	+0.76	+0.89	+0.77
Natl Bk of Hungary	BBB-	06/01	8.000	ATS	+0.83	+0.82	+0.88
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.79	+5.77	+5.05
Argentina	N/A	04/08	6.125	XEU	+3.19	+3.13	+3.35

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Prices lower on interest rate fears

GOVERNMENT BONDS

By Avi Machlis in London and Richard Waters in New York

Prices ended lower as investors took a second look at the latest comments on the US economy by Alan Greenspan, chairman of the Federal Reserve.

Mr Greenspan suggested US interest rates may have to rise to ward off the threat of higher inflation despite the slowdown in Asia. He also repeated his view that US share prices were due for a correction, which sent a shiver through the world's equity markets.

The equity sell-off would usually have seen bond prices rise, but they caught the pessimistic mood. European prices lost early gains to close slightly lower, with gilts also hit by the UK's own interest rate worries.

"I would have expected the bond markets to be a bit stronger given how equity markets have performed," said Michael Derks, senior strategist at Nomura.

US TREASURIES led the inquest on Mr Greenspan's Humphrey-Hawkins testimony to Congress, putting a more negative interpretation on his comments.

In further testimony yesterday, the Fed chairman reiterated his view that inflation remained a more likely to threat to US economic stability than deflationary forces emanating from Asia, a position that has underlined the Federal Reserve's monetary stance for the past four months.

By early afternoon in New York, the benchmark 30-year Treasury bond was down ½ to 106⅛, lifting the yield back to 5.671 per cent. The 10-year bond slipped ⅛ to 101¾ to yield 5.441 per cent. The two-year note was also down ⅛ to 99⅝, yielding 5.459 per cent.

GERMAN BUNDS led the retreat among European markets after a strong start.

The September future fell 0.11 to 109.04, with 400,000 contracts changing hands in Frankfurt.

The spread between the benchmark gilt and bund contracts widened 5 basis points to 134 basis points.

Data released yesterday showed German producer prices fell 0.1 per cent in June compared with May. Inflation data for the state of Hesse also showed that prices rose by 1.1 per cent on an annual basis, underpinning confidence on price stability and providing further benign news for the Bundesbank ahead of today's council meeting.

CPI data from three more German states will be published today and tomorrow and are expected to confirm the generally favourable inflationary outlook for the economy.

Italian BTPs also moved slightly lower, shrugging off the latest good inflationary numbers, though still holding out the hope of a cut in the discount rate. The September future settled 0.07 at 120.99.

UK GILTS were hit by both US and UK interest rate worries and fell more sharply than other European markets. The September 10-year gilt future closed down 0.41 to 108.04 in brisk Liffe trading of 75,000 contracts.

Retail sales data, indicating a 1.1 per cent decline in June, did not surprise analysts, who had anticipated the impact of bad weather and the World Cup on the high street.

However, the data failed to reassure the market that the Bank of England monetary policy committee would not raise interest rates again.

Julian Jessop, chief European economist at Nikko, said: "The markets are clearly more nervous about interest rates going up, and within Europe, the country most likely to raise interest rates in the next few months is the UK."

IPE to expand pit trading facilities

By Gary Mead

The International Petroleum Exchange is to spend almost £250,000 on expanding by 50 per cent its open-outcry pit trading facilities for its leading contract, Brent crude oil, after a 25 per cent increase in the number of floor traders in the past few weeks.

Lynton Jones, the IPE's chief executive, said most of the influx of new floor traders has come from the London International Financial Futures Exchange, which plans to move entirely to electronic trading for all contracts by mid-1999.

"There have been 22 from Liffe and two from the Chicago Mercantile Exchange, and six more from Liffe are awaiting approval. A further 14 from Liffe have had their application to trade on the IPE approved but have yet to move across," Mr Jones told the FT. The IPE currently has 180 floor traders.

From early 1999, the IPE's two leading contracts – gas oil and Brent – will trade electronically both before and after the existing open-outcry trading day.

Precise opening and closing times for this new electronic trading will be announced later.

The IPE is also planning to enter into what it calls a "full-scale strategic alliance" with the New York Mercantile Exchange, with which the IPE already has in place an agreement to develop a common electronic trading platform.

Mr Jones said the proposed alliance would be put to the IPE's board for approval by the beginning of November. He said he hoped the alliance would become a reality "in the first half of 1999".

Investors more relaxed over Russia

By Jeremy Grant

Russia's rescue package from the International Monetary Fund and the success of its T-bill exchange scheme have reduced volatility in emerging debt markets and investors are taking a longer-term view of such risk.

However, if Russia fails to follow up with structural reform, sentiment could rapidly turn sour again and markets remain on their guard, economists said.

"The mood is much more relaxed and people are more prepared to take a longer-term view, meaning three to four months. But Russia still has to deliver on reforms," said Isaac Tabor, at West Merchant Bank.

The J.P. Morgan emerging market bond index, seen as a benchmark for sentiment in emerging debt markets, was showing a yield spread over the benchmark US Treasury bond of 570 basis points on Tuesday, against 621 basis points last Friday, just before the Russian T-bill exchange closed. That reflects a rise in the value of emerging market paper.

In Russia, restructured Soviet-era debt – known as Prins – were trading at 47 cents on the dollar before the IMF package and exchange deal. After the plans were announced on Monday, they had climbed above 50 cents.

Richard Gray, head of emerging markets at Bank of America, said Russia was "off the fear list". In addition, markets ranging from Latin American Brady bonds to domestic eastern European bonds had outperformed Russian bonds.

"Volatility ought now to start dropping and then markets should settle into a less dramatic but safer crawl to firmer ground," Mr Gray said.

Emerging markets are also likely to see fresh flows of funds given that the global search for yield continues unabated.

Economists say investors already appear to be distinguishing between the various emerging market risks as it becomes clear that some countries offer better fundamentals than others.

"With stabilisation in Russia and some sense of stability in Japan, Asia's problems can increasingly be isolated to their markets," said Jerome Booth, at ANZ Investment Bank. "People are also starting to differentiate and looking at the fundamentals rather than trading on Russia the whole time."

There has been some evidence of this in Latin America, where Argentina has managed to maintain a stream of eurobond issues.

In eastern Europe, interest rates in the Polish currency market were barely affected by the Russian crisis.

However, there are concerns in some isolated emerging markets, notably Pakistan and Ukraine.

Islamabad is hovering dangerously close to a balance of payments crisis, although a US decision not to block IMF lending to Pakistan has improved that country's chances of clinching credits.

An IMF mission was due to arrive in Kiev today to assess Ukraine's reform efforts in connection with the country's bid for more than $2bn in loans.

Asset-backed deals well met

INTERNATIONAL BONDS

By Jeremy Grant

Investors had little to chew on as summer torpor held back issuance in the eurobond market. However, two asset-backed transactions made a good showing in a market increasingly receptive to securitised products.

TYSELEY WASTE DISPOSAL, a unit of French conglomerate Vivendi, became the first borrower to issue bonds backed by payments from a UK local authority to a private services contractor.

Borrowing through Tyseley Finance, the company sold $88m of 6.675 per cent 20-year bonds with Paribas as lead manager.

The offering was priced to yield a spread of 80 basis points over the 20-year gilt.

The bond was securitised against revenues payable by Birmingham City Council to Tyseley for collecting and processing urban waste under a 25-year concession.

"We believe this transaction marks an important development in the use of securitisation to refinance public purpose infrastructure projects," said Charles Silberstein, an official at Financial Security Assurance, which is guarantor for the transaction.

Deutsche Bank and Banco Cisf, the investment banking arm of BANCO COMERCIAL PORTUGUES, launched a two-tranche, DM435m transaction that is the first to be backed by Portuguese consumer loans.

The seven-year floating-rate notes were issued through a special purpose vehicle. More than 33,000 loans originated by BCP, Portugal's largest private bank, were securitised.

A senior tranche of DM421.8m was expected to be rated AA, Aa2 and AA by S&P, Moody's and Fitch respectively and carried a margin of 28 basis points over three-month Libor. The DM13.3m mezzanine tranche had a margin of 53 points.

SNS BANK, the Netherlands' sixth largest bank, made its debut euro issue with a £300m floating-rate note co-led by BNP and Credit Agricole Indosuez.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Salomon SB Holdings(a)‡	300	(a1)	100.00R	Aug 2005	0.30R	-	Salomon Smith Barney
Banco ABN Brazil	100	8.875#	99.90R	Jul 2001	0.625R	+344(Jun01)	ABN Amro
D-MARKS							
Nova No 1, Class A1(b)‡	421.8	(b1)	100.00	Oct 2005	undisc	-	Deutsche Bank
Commerzbank AG(c)	100	11.00	100.00	Aug 1999	-	-	Commerzbank
STERLING							
Tyseley Finance plc(d)	88	6.675#	100.00R	Jul 2018	0.625R	+80(9%Oct08)	Paribas
Exportfinans‡	50	6.36(q)	100.00	Aug 2000	1.181	-	IBJ Intl/New Japan Secs
SWISS FRANCS							
Royal Bank of Scotland‡	200	(f)	100.15	Aug 2001	0.15	-	Merrill Lynch Cap Mkts
GUILDERS							
KBC Intl Finance(g)	110	9.60	102.00	Aug 2000	2.00	-	KBC Bank
EUROS(e)							
SNS Bank‡	300	(h)	100.00R	Aug 2005	0.175R	-	BNP/CAI
Santander Finance(i)§	(i1)	2.90	100.00	2003	2.00	-	Salomon Smith Barney
CANADIAN DOLLARS							
Rabobank Nederland	100	5.25	99.115R	Aug 2003	0.26R	+10(5½%Sep03)	RBC DS Global Markets
NORWEGIAN KRONER							
European Investment Bank	500	5.375	101.10	Aug 2007	1.875	-	Unibank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♯Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 22/7/01 at par. a1) 3-mth Libor +25bp. b) Secured on Portuguese consumer loans originated by Banco Comercial Portuguese. Average life: 3.8 yrs. b1) 3-mth Libor +28bp. b2) Class A2: DM13.3m, 3ML +53bp, 5.5 yrs, par. c) DM100m launched Monday increased to DM200m. Redeemed at par or 32 Daimler-Benz shares. d) Amortises on coupon dates: av life 10.8 yrs. e) Payments in Ecu prior to Emu. f) 3-mth Libor flat. g) Redeemed at par or of 36 ING shares per Fl 5,000 bond. h) 3-mth Libor +12½bp. i) Exchangeable into Banco Santander shares at indicated premium of 43-49%. i1) Pta50bn equivalent. q) Quarterly coupons.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jul 22	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.9885	5.24	+0.05	+0.07	-0.05	-0.07
	05/08	8.750	124.0488	5.56	+0.04	+0.05	-0.07	-1.04
Austria	07/00	5.875	103.1200	4.09	+0.03	+0.24	+0.01	+0.17
	01/08	5.500	101.2800	[illegible]	-	+0.01	-0.03	-0.76
Belgium	01/00	4.000	98.9800	4.01	+0.02	-	-0.09	+0.35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.38	105.01	-0.03	105.27	104.76	91,429	134,865
Dec	104.75	104.77	+0.07	104.77	104.75	29	22

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE) Lira 200m 100ths of 100%

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

[illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

NOTIONAL UK GILT FUTURES (LIFFE) £50,000 100ths of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

[illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	104.00	-0.02	-	-	0	16

US CORPORATE BONDS

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الاصل

CURRENCIES & MONEY

Yen falls as Obuchi's prospects rise

MARKETS REPORT

By Simon Kuper

The yen dropped again yesterday on reports suggesting that the most cautious candidate would become prime minister of Japan.

Keizo Obuchi, foreign minister, looks increasingly likely to be elected leader of the ruling Liberal Democratic Party tomorrow, and to take over the premiership from Ryutaro Hashimoto by the end of the month. The market believes that Mr Obuchi is less of an economic reformer than his two rivals, Seiroku Kajiyama and Junichiro Koizumi, and thus less likely to raise Japan from the depths. "New captain for the Titanic," summed up Julian Jessop at Nikko Europe in London. Kenneth Landon, senior currency strategist at Deutsche in Tokyo, said Mr Obuchi seemed merely to have "inherited the platform that Mr Hashimoto would have put forward if he had not resigned as prime minister".

Mr Obuchi supports a new fiscal stimulus worth Y6,000bn in tax cuts and another Y10,000bn in public spending, but his rivals have similar plans. Robin Marshall, chief economist at Chase in London, noted: "He doesn't inspire confidence as a man with a strong agenda in banking reform, in the way that Mr Kajiyama does." The market was no longer viewing the change of premier as a "cathartic event," added Mr Marshall. "There was an initial, slightly absurd, conclusion that once Mr Hashimoto had gone all the problems would be solved quickly."

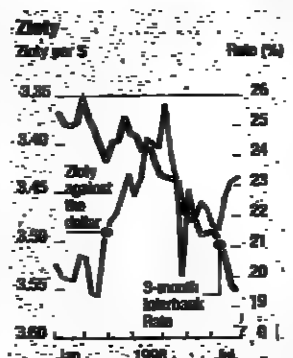
■ POUND IN NEW YORK

Jul 22	Latest	Prev. close
£ spot	1.6420	1.6435
1 mth	1.6394	1.6408
3 mth	1.6336	1.6353
1 yr	1.6101	1.6122

The dollar, which had risen Y1.2 on Tuesday, gained another Y0.9 yesterday to close in London at Y141.0. It shrugged off the fall on Wall Street precipitated by Alan Greenspan, chairman of the Federal Reserve, who said share prices were too high.

The zloty was fixed at a record high above the centre of its trading band for the second day running, even though the Polish central bank again sold its currency in the market. The National Bank of Poland bought an estimated $60m-$80m yesterday, to add to the $100m or so it purchased on Tuesday.

■ The South African rand rallied after Trevor Manuel, finance minister, reassured investors with his display during a parliamentary debate on the currency. The rand gained 9 cents against the dollar to R6.22, although it is still down 20 per cent since late May.



Mr Manuel said that the government would keep pursuing fiscal rectitude and that South Africa's Reserve Bank would stay independent. He also suggested that interest rates would stay high for as long as necessary – they have risen 6 percentage points since the rand came under attack.

John Clemmow, at Investec Securities in London, said: "I don't think that what was said is going to make any difference. The finance minister stood up and did what one would expect him to: he blamed everyone else, and pressed the right buttons." The rand was now fundamentally undervalued, but would stay in trouble until speculators found another target, Mr Clemmow said.

So why did Mr Manuel's simple reiteration of existing policies boost the rand? Mr Clemmow explains: "There is still a significant amount of vestigial racism, certainly in some of the South African commentators, and they have a fear that the finance minister will stand up and say something ludicrous." When Mr Manuel instead stated the obvious, they were reassured, says Mr Clemmow.

■ The pound dropped on weak retail sales data for June. Sales growth fell to its lowest in two years, hit by the economic slowdown, the football World Cup and the rain – "dampening is the operative word", said Tim Fox, currency strategist at Standard Chartered in London. Sterling fell 0.6 pfgs and 0.6 cents to DM2.938 and $1.641 respectively.

But most in the market still think that the Bank of England's monetary policy committee will raise interest rates again next month. Reflecting this view, short sterling futures shrugged off the retail sales data to record another fall. The March 2000 contract lost 8 basis points to price in base rates of about 6.75 per cent.

■ OTHER CURRENCIES

Jul 22	£	$
Czech Rp	51.2594 - 51.3617	31.2500 - 31.2510
Hungary	355.564 - 356.905	216.780 - 216.870
Iran	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Peru	4.7667 - 4.7707	2.9060 - 2.9070
Poland	[illegible]	[illegible]
Russia	10.0562 - 10.0595	6.2490 - 6.2510
U.A.E.	6.0245 - 6.0279	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.6714	[illegible]	[illegible]	20.7012	20.5944	[illegible]	4.1	20.454	4.2	[illegible]	3.7	[illegible]
Belgium	(BFr)	[illegible]	-0.1046	[illegible]	60.8551	60.4060	60.4062	4.0	59.9815	4.1	[illegible]	3.8	102.7
Denmark	(DKr)	11.1987	-0.0225	923 - 010	11.2134	[illegible]	11.185	3.4	11.0969	3.6	10.8185	3.4	105.3
Finland	(FM)	[illegible]	-0.02	230 - 386	8.9430	[illegible]	[illegible]	4.1	[illegible]	4.1	[illegible]	3.8	81.2
France	(FFr)	9.8475	-0.0224	[illegible]	9.8853	9.8135	9.8142	4.1	9.7439	4.2	[illegible]	3.8	106.1
Other rows	[illegible]												

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.5891	+0.022	971 - 011	12.6070	12.5470	12.5758	2.3	12.5307	2.2	12.3686	1.8	103.2
Belgium	(BFr)	36.9400	+0.08	200 - 600	36.9600	36.7900	[illegible]	2.1	36.7465	2.1	36.255	1.9	102.8
Denmark	(DKr)	6.8243	+0.0128	[illegible]	6.8290	6.7980	[illegible]	1.5	6.7983	1.6	6.7243	1.5	104.8
Finland	(FM)	5.4430	+0.009	[illegible]	5.4455	5.4216	5.4328	2.2	[illegible]	2.1	5.3405	1.8	80.8
France	(FFr)	6.0020	+0.0097	[illegible]	6.0077	5.9900	[illegible]	2.1	5.9695	2.2	[illegible]	1.9	105.8
Other rows	[illegible]												

Rates for Jul 22. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices [illegible] Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE [illegible]. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Jul 22	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]							
France	[illegible]							
Germany	[illegible]							
Ireland	[illegible]							
Italy	[illegible]							
Netherlands	[illegible]							
Switzerland	[illegible]							
US	[illegible]							
Japan	[illegible]							

EURO CURRENCY INTEREST RATES

Jul 22	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

Euroluira options (LIFFE) L1000m points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
95625	0.080			0.125		
95750	0.020	0.340	0.340	0.210	0.020	0.050
95875	0.010			0.325		

Est. vol. total, Calls 11305 Puts 6965. Previous day's open int., Calls 104664 Puts 109198

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 22	[illegible]
[illegible]	

UK INTEREST RATES

LONDON MONEY RATES

Jul 22	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]					
Sterling CDs	[illegible]					
Treasury Bills	[illegible]					
Bank Bills	[illegible]					
Local authority deps.	[illegible]					
Discount Market deps	[illegible]					

UK clearing bank base lending rate 7½ per cent from Jun 4, 1998

Short sterling options (LIFFE) £500,000 points of 100%

Strike Price	Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
92125	0.085			0.090		
92250	0.035	0.130	0.260	0.165	0.210	0.220
92375	0.015			0.270		

Est. vol. total, Calls 15130 Puts 24146. Previous day's open int., Calls 402857 Puts 342848

EMS EUROPEAN CURRENCY UNIT RATES

Jul 22	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
[illegible]						

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Singer & Friedlander	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	●Smith & Williamson	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	Sun Bank	7.50
Banco Bilbao Vizcaya	7.50	●Guinness Mahon	7.50	TSB	7.50
Bank of Cyprus	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Ireland	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of India	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of Scotland	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Barclays Bank	7.50	Hongkong & Shanghai	7.50		
Brit Bk of Mid East	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.50	Julian Hodge Bank	7.50		
Citibank NA	7.50	●Leopold Joseph & Sons	7.50		
Clydesdale Bank	7.50	Lloyds Bank	7.50		
The Co-operative Bank	7.50	Midland Bank	7.50		
Coutts & Co	7.50	NatWestminster	7.50		
Cyprus Popular Bank	7.50	●Rea Brothers	7.50		
Duncan Lawrie	7.50	Royal Bk of Scotland	7.50		
		Scottish Widows Bank	7.50		

NOTICE TO THE HOLDERS OF

Winbond Electronics Corporation

(Incorporated with limited liability in Taiwan, Republic of China)

US$ 100,000,000

1 per cent. Convertible Bonds due 2002

(the "Bonds")

"Notice of Suspension Period and Conversion Price Adjustment"

Reg S: CUSIP # Y95873ADD Rule 144A: CUSIP # 972657AB6

NOTICE IS HEREBY GIVEN to the holders of the outstanding Bonds of Winbond Electronics Corporation (the "Company"), pursuant to the Terms and Conditions of the Bonds, that the Company will offer its shareholders the right to subscribe to ordinary shares of up to an aggregate 200,000,000 shares at the subscription price of NT$24. At its Board of Directors meeting held July 7, 1998, the Company has fixed July 29, 1998 as the record date.

In accordance with the provisions of the Indenture constituting the Bonds, the Conversion Price will be adjusted from NT$38.78 to NT$38.09 effective as of July 30, 1998.

In accordance with the ROC Company Law, the Company will close its stock transfer books during the period of July 25 to July 29, 1998. As a result, the bondholders' right to convert any bond into the Company's Shares shall be suspended and shall not be exercisable during the period (the "Suspension Period").

Bondholders should consult with the Terms and Conditions of the Bonds contained in the Offering Circular dated November 4, 1997 for specific provisions concerning the conversion rights attaching to the Bonds.

WINBOND ELECTRONICS CORPORATION
By: THE BANK OF NEW YORK
as Trustee

July 23, 1998

RPS

Residential Property Securities No.4 PLC

£290,000,000

Class A1 Notes Mortgage Backed Floating Rate Notes due 2023

Notice is hereby given that there will be a principal repayment of £4,664.00 per £100,000 Note pursuant to Clauses (5b) of the Notes on the interest payment date 31st July 1998. The principal amount outstanding on 31st July 1998 will therefore be £12,509.00 per Note.

GREENWICH NATWEST

OIL GLOOMY TRADERS NEED EVIDENCE THAT OPEC CUTS ARE WORKING, SAY INDUSTRY OBSERVERS

Continued growth reported in US crude stocks

By Robert Corzine

The gloom that has settled over world oil markets in recent weeks showed no sign of lifting yesterday, as the latest weekly inventory figures from the US revealed continuing growth in crude oil stocks – even though most refineries were reported to have been working flat out.

The bellwether Brent Blend contract for September delivery was quoted at $12.93 a barrel in late trading on London's International Petroleum Exchange, down by just 3 cents from Tuesday's close, although it had fallen as low as $12.49 a barrel eariler in the day.

On the New York Mercantile Exchange, the futures contract for September light crude opened sharply lower in response to the bearish stock data, although it also later recovered to $14 by midday, down 4 cents on Tuesday's close.

In its weekly report, the American Petroleum Institute said crude oil stocks in the US – the world's biggest oil market – rose by 7m barrels over the past week to 340m barrels. That figure is well up on last year's level.

A similar survey by the federal government's Energy Information Administration also showed a build-up in crude oil stocks, by 5.6m barrels.

Both surveys disclosed a leap in distillate fuel stocks, which are at their highest summer level since the Gulf war.

Oil analysts say that such large stocks of distillate fuels lessen the chances of an early winter rally in prices based on shortages of fuel used for heating. Distillate fuels are used extensively in the north-east of the US.

In recent weeks, the inventory data from the US have become some of the oil industry's most closely watched indicators of future price movements.

This follows the decision in late June by the Organisation of Petroleum Exporting Countries together with some non-Opec producers, such as Mexico, to make a second cut in production output to support crude oil prices.

Many industry observers believe that the oil markets need to see a steady erosion of US crude stocks before it can be accepted that the Opec production cuts are working.

Such evidence could also spur big end-users, such as airlines and railways, to enter the market to secure supplies of oil at the current low prices. So far there has been little evidence of such end-user buying, according to traders.

Investment bank and broker ABN Amro summed up the mood in the market in its latest oil report.

"Price sentiment continues to be driven by these high stock levels – at a time when stocks are high ... it is difficult for traders to become concerned over supply security," it said.

Those seeking evidence of a shift in sentiment are also watching global demand growth figures, although so far they remain generally pessimistic.

London's Centre for Global Energy Studies this week revised downward once again its forecast for growth in oil demand, to just 1.26m barrels a day. That is in sharp contrast to its prediction last December of 1.9m b/d.

Other analysts are even more bearish, with some forecasts released this week suggesting that growth in global demand could slump to just 1m b/d this year.

Those seeking a silver lining in the statistical gloom point to the possibility of an exceptionally cold northern winter brought about in part by a reversal of the warming trend caused by the El Niño weather phenomenon in the Pacific Ocean.

A normal winter would be unlikely to make much of a dent in stock levels, say oil company economists, but an unusually cold or early winter could at least shift investor sentiment in favour of higher prices.

Jump in US and UK coffee futures

MARKETS REPORT

By Paul Solman

Robusta coffee futures jumped on the London International Financial Futures Exchange, following a rise in US arabica futures prices.

The benchmark Liffe September contract finished $15 higher at $1,570 a tonne, its highest for two weeks. September arabica was 6.75 cents higher at 115 cents a pound at midday on New York's Coffee Sugar and Cocoa Exchange.

In contrast, September cocoa ended £10 lower on Liffe at £1,073 a tonne in quiet trading.

Coffee production in Rwanda is expected to rise this year for the first time since the civil war of 1994.

Industry officials said favourable weather and new government policies would help to raise production by about 3,000 tonnes to 17,500 tonnes this year.

Rwanda coffee production peaked at 43,026 tonnes in 1987. No coffee was produced during the civil war, and the crop has remained small since then.

The crop of 14,843 tonnes in 1997 was the smallest for 23 years.

However, new policies offering price incentives to farmers, new regional co-operatives, and support for growing on fertile areas boosted crop quantity and quality.

Base metals ended mixed on the London Metal Exchange. Copper stayed above $1,700 a tonne to finish down $2 at $1,709. Aluminium rose $5 to $1,368 a tonne, with the market largely ignoring news that LME stocks were at a seven-year low of 492,575 tonnes.

Lead and zinc traded routinely, closing unchanged at $534 a tonne and up $4 at $1,089 a tonne respectively.

Kerala tea gardens in need of further intensive care

Improved world supplies mean India's least profitable tea centre must raise the quality of its crop to survive, says **Kunal Bose**

The southern state of Kerala is among the least profitable tea-growing centres in India. Without last year's boom in tea prices, which was triggered by a big setback in the Kenyan and Indonesian crops, many tea gardens in Kerala would have been unable to sustain production at their present levels.

K. Ahmedullah, adviser to tea group Harrison Malayalam and one of India's most respected planters, says: "Literally, a large number of tea gardens in Kerala were in intensive care in 1996.

"What helped the industry in Kerala was the more than doubling in prices of medium and poor quality teas last year. For the first time in many years, the Kerala gardens, especially the ones owned by individuals, had the money to buy essential inputs like fertilisers and pesticides in right quantities and upgrade tea making factories."

However, Kerala is set to return to difficult times. Kenya, Africa's largest tea producer, is harvesting a record crop this year and Indian output rose nearly 32m kg to 221.42m kg by the end of May.

A.K. Atal, director of J. Thomas, the world's largest tea broker, says: "As the world's supply of tea has improved considerably in the current season, the prices of poor quality teas continue to fall.

"Unlike last year, when the price difference between good quality tea and inferior grades became narrow, the buyers will now pay a premium for only good lines of tea."

At the tea auction in Kochi, Kerala, well-made good liquoring CTC (crush, tear and curl) tea is selling at Rs90-Rs100 a kg compared with Rs40 (94 US cents) a kg for poorer quality tea.

Kerala produces almost 70m kg of tea a year – about 9 per cent of the Indian crop – but industry officials say poor quality teas account for more than 35 per cent of Kerala's output.

"The big plantation groups like Tata Tea, Harrisons Malayalam and AV Thomas are producing excellent teas even though the climate and soil in Kerala are not ideal for tea cultivation," says Mr Ahmedullah.

"Many of their gardens have attained a productivity rate of over 3,000kg a hectare against the state average of less than 2,000kg a hectare, but most of the gardens owned by individuals produce poor quality tea and their productivity is also low," he adds.

Abhijit Mazumdar, senior vice-president of Tata Tea, says: "Many Kerala tea producers make a kind of earthy, reconstituted tea which finds the market only in south India and Goa. More planters in Kerala must learn to make Assam type CTC tea to get access to a bigger and better paying market."

Kerala produces 9 per cent of India's crop but 35 per cent of its output is poor quality Panos Pictures

The Indian Tea Board's national campaign to improve tea quality has made little impact in Kerala. "The reason is too much dependence of Kerala tea producers on the southern regional market and Russian buying. When the Russians buy tea from Kerala, they only go by leaf appearance and not by beverage quality," Mr Atal says.

Investment is needed to modernise both the Kerala gardens and tea factories, says Mr Mazumdar, and to replace the old, low-yielding bushes.

Industry officials say government help is needed. "The state government plays a big role in fixing the wages of tea garden workers. At Rs80 a day wages are highest in Kerala. But productivity in Kerala is 25 per cent lower than in Tamil Nadu. This has to be corrected," says Mr Ahmedullah.

Kenya set for record tea crop

By Gary Mead

Kenya's tea crop will be its best ever this year at some 280m-290m kg, according to specialists in Mombasa.

The mammoth crop, which would be up by almost 27 per cent from the 220.7m kg of 1997, is almost entirely the result of a near perfect combination of heavy rainfall earlier this year followed by ample sunshine. The previous record was set in 1996, with 257m kg.

Africa Tea Brokers in Kenya had estimated that production in the first six months of 1998 – the period of the year of greatest output – was 155.22m kg, some 60 per cent more than the 96.73m kg produced in the first half of 1997.

Mombasa tea auction prices reached a peak this year of $3.70 a kg in April but have retreated to $2.40 more recently, and tea traders believe that prices will fall further as the impact of the expected harvest begins to make itself felt later in the year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

[illegible]

Precious Metals continued

[illegible]

PRECIOUS METALS

[illegible]

ENERGY

[illegible]

GRAINS AND OIL SEEDS

[illegible]

PULP AND PAPER

PULPEX CMLE (US$; 3A or dry tons)

	Sett. price	Day's change	High	Low	Vol	Open int.
Sep	446.00	-1.00	446.00	446.00	20	495
Dec	457.50	+2.50	457.50	457.50	10	250
Total					31	800

FUTURES DATA

All futures data supplied by CMS.

Teas from Tea Brokers' Association Mombasa Brighter and medium BP1s appreciated on average by 5-15 cents. Lower mediums were dearer by 2-5 cents with plainer sorts irregularly dearer. Brighter liquoring PF1s were a strong feature and appreciated by 20-30 cents. Mediums advanced 6-15 cents, with lower mediums firm to irregularly dearer and plainer sorts 5-15 cents dearer. Brighter P. Dusts were irregular. Mediums of all categories appreciated on average by 5-15 cents. Plainer sorts rose 20 cents.

● The nuts and seeds report was not available.

SOFTS

[illegible]

MEAT AND LIVESTOCK

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

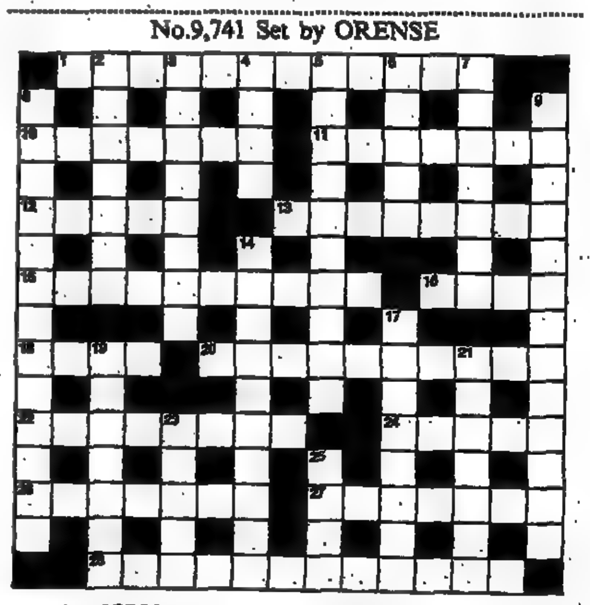
INDICES

[illegible]

JOTTER PAD

CROSSWORD

No.9,741 Set by ORENSE



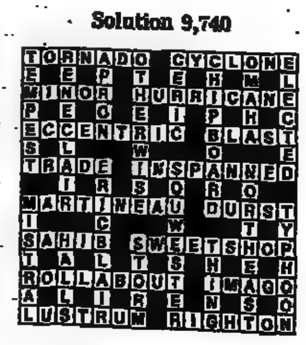
ACROSS

1 Knocking tradition in the States (5,2,5)
10 A key face-saving device for counsellor (7)
11 Interior of tent to match English weave (7)
12 Dug up material (5)
13 Honest, once you are back in view (8)
15 One can afford passage north in the winter (10)
16 Corn, without a smile (4)
18 Handle derision expressed by this paper (4)
20 Shops at stores in Barking (10)
22 Windfall could be finished, starting to run into problems early (8)
24 Colour that's religious in the main (5)
26 Retreat on revolution (7)
27 A real man, a character that registers every anniversary (7)
28 Double celebration, very quiet, disturbed angler eg (12)

DOWN

2 Retribution, say, not once brought up (7)
3 Money just for material (8)
4 Pigs don't start rows (4)
5 Negotiate, intended to be heard by head of school course (10)
6 Retired gunners have time spare (5)
7 First thoughts on sailing ship's cause of fire (7)
8 Port managers advertisement (8,5)
9 Find 28 a formidable adversary? (4,4,5)
14 Do a bit of entertainment (5,5)
17 Doctor to put up employee (8)
19 Ripped off coat with initial defiance (7)
21 Get rid of old joke, get rid of time (7)
23 Right to step up and go over old ground (5)
25 Reserve gets end of season report (4)

Solution 9,740



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

Foreign & Colonial Emerging Markets Ltd

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

Jump in US and UK coffee futures

CROSSWORD

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الاصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Professional Investment Consultants

Asia Pacific Securities Corp Ltd

Swiss Intl Capital Management (U.K.) Ltd

The Glenmore Property Fund Ltd

Indocam Asia

Magnum Funds - Contd.

PFPC International Ltd

Societe Generale Group

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الاصل

هكذا من الاصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

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FT Company Focus / Focus Plus

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LONDON STOCK EXCHANGE

US interest rate scare drives Footsie below 6,000

MARKET REPORT
By Steve Thompson, UK Stock Market Editor

There was more severe pain for UK equities yesterday with shares prices tumbling across the board for the second consecutive session as the market continued to react to Alan Greenspan's speech to the US Senate.

The chairman of the US Federal Reserve warned of the inflationary dangers of rapidly expanding employment and demand, as well as stating that the risk of a pick-up in inflation outweighed the threat of a sharp economic slowdown.

And adding to the market's discomfort, he claimed that the level of stock prices may be hard to sustain.

With the threat of a rise in US interest rates, possibly as early as after the next meeting of the Fed's open market committee, scheduled for August 18, hitting Wall Street overnight, London was under pressure throughout the session.

And it was not only the Greenspan effect that prompted big losses in London. Comments on Tuesday by Barton Biggs, Morgan Stanley Dean Witter's global strategist, and by BT Alex Brown's Pan-European Equity Strategy team added to a gloomy picture.

The Morgan Stanley guru forecast a 20 to 30 per cent fall by US stocks in the next six to nine months with European markets retreating 10 per cent. BT Alex Brown also forecast a 10 per cent drop in European markets.

The Dow Jones Industrial Average fell 105 points overnight and posted a further three-figure plunge during early trading yesterday, bringing increased downside pressure on a London market already buffeted by waves of selling.

There was further gloomy domestic economic news. Retail sales fell 1.1 per cent in June, with economists blaming the distraction of the World Cup and the poor weather for the decline, which was slightly more than the consensus forecast of a 0.6 per cent fall.

Some observers took the view that the fall in sales would lead to reduced pressure for a rise in UK interest rates when the Bank of England's monetary policy committee meets on August 5 and 6. Ken Wattret at Paribas said there have been signs that consumer and service sector demand are cooling while the July RPI data were better than expected.

"Our best guess remains that we see another quarter-point hike in rates next month," said Mr Wattret.

At the close of trading the FTSE 100 was down a further 143.1 at 5,989.6 for a two-day decline of 189.4 or 3.1 per cent.

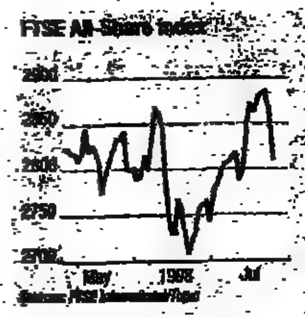
The junior FTSE indices also fell sharply, with the FTSE 250 settling a net 44.4 off at 5,659.3 and the FTSE SmallCap 19.0 lower at 2,570.2.

It was not all sell-side stories, however. One of the stock market's longest-running takeover stories came to fruition as US investment group Kohlberg Kravis Roberts put together a bidding consortium, including UK insurers Guardian Royal Exchange and Royal & Sun Alliance, offering 200p a share for Willis Corroon.

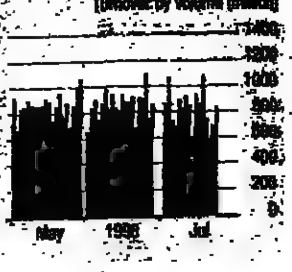
The Willis bid saw shares in Sedgwick, the UK's second biggest insurance broker after Willis, rise strongly on the view that it too will attract a predator.

Turnover reached a disappointing 832.4m by 6pm.

FTSE All-Share index



Equity shares traded Turnover by volume (million)



Source: FTSE International/Tops

Indices and ratios

FTSE 100	5989.6	-143.1	FT 30	3895.2	-88.4
FTSE 250	5659.3	-44.4	FTSE Non-Fins p/e	23.30	23.70
FTSE 350	2885.4	-60.5	FTSE100 Fut Sep	6024.0	-160.0
FTSE All-Share	2811.16	-58.55	10 yr Gilt yield	5.80	5.85
FTSE All-Share yield	2.79	2.74	Long gilt/equity yld ratio	2.10	2.11

Best performing sectors

1 Tobacco ... [illegible]
2 Electricity ... -0.7
3 Distributors ... -0.8
4 [illegible] ... -0.8
5 [illegible] ... -0.8

Worst performing sectors

1 Engineering Vehicles ... -4.0
2 Banks Retail ... -3.4
3 Pharmaceuticals ... -3.1
4 Life Assurance ... -3.0
5 Telecommunications ... -2.5

Rumours of deal lift RBS

COMPANIES REPORT
By Steve Thompson, Joel Kibazo, Candida Williams and Martin Brice

A report that Mellon Bank is about to acquire Newton Investment Managers for around £170m was said to have been behind the reasonably resilient performance of Royal Bank of Scotland shares. Royal Bank of Scotland has a one-third stake in Newton.

RBS shares traded up to £10.40 for much of the morning, only succumbing to the overwhelming market weakness during the afternoon, eventually finishing a net 21 lower at £10.08.

Sustaining RBS was a flurry of rumours that the bank may be lining up a substantial acquisition and clearing the decks in preparation for such a move.

Talk in the stock market suggested that Scottish Widows, the life assurance/pension fund mutual, which already has close links with RBS, was the perfect partner. Specialists said the acquisition of Scottish Widows would cost more than £6bn, but would be well received by the market.

They warned, however, that Scottish Widows might be reluctant to demutualise because of the possibility that an unwelcome bidder might move in on a merged RBS/Scottish Widows.

One of the longest running takeover stories came to a conclusion yesterday when insurance broker Willis Corroon announced an agreed bid from private equity firm Kohlberg Kravis Roberts through its vehicle Trinity Acquisitions.

News of the 200p a share deal not only sent shares in Willis soaring but also triggered renewed bid speculation in UK rival broker Sedgwick Group.

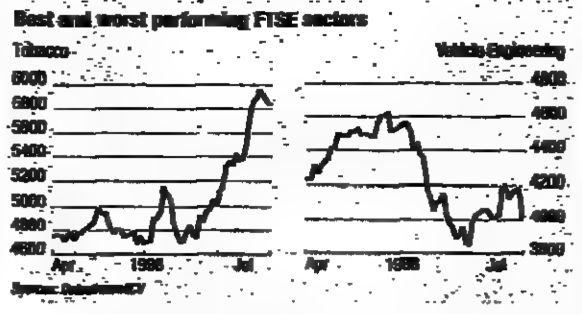
Trinity was formed by KKR with the support of five of the world's leading insurance companies.

Willis said Trinity had agreed to purchase 42,558,502 Willis shares, representing 9.9 per cent the company's issued share capital from Phillips & Drew Fund Management although turnover on the Seaq screen was a mere 3.9m by the close.

The shares remained around the top of the FTSE 250 best performers league throughout the day, rising 19 or 10.6 per cent to 197½p.

They were closely followed by Sedgwick which appreciated 12½ to 146½p as speculation that the group will soon be on the receiving end of a bid gathered pace.

Best and worst performing FTSE sectors



One of the few Footsie stocks to strike an advance was BOC, which gained 7 to 860p, helped by comments from Salomon Smith Barney. It highlighted BOC as "the cheapest stock in the sector" in a review of the worldwide industrial gases industry, and set a 12-month price target of 970p on the shares.

However, the broker added that BOC was also a risky stock, although all the short-term bad news was in the price.

Boost for BBA

BBA Group benefited from a series of positive broker comments following its announcement of the sale of its Ajax induction furnace business, which completes its exit from specialist electrical operations.

Colin Crook at Lehman Brothers told clients that BBA was largely insulated from some aspects of the Asian slowdown. He said order patterns were slowing for a host of industrial manufacturing goods.

His valuation model suggests that BBA shares were still undervalued by about 10 to 15 per cent. They closed easier at 480½p.

One of the best performances in the FTSE 250 came from WS Atkins after the consultancy said it had won a contract to run 1,000 Job Centres for the government, worth about £1m-£2m in total profit to Atkins. The shares gained 30 to 604½p. Geoff Allum at Henderson Crosthwaite said: "WS Atkins has been undergoing a process of changing strategy towards more facilities management and Private Finance Initiative contracts, and this is a big feather in their cap."

Shares in drinks group Diageo followed the market falling 17 to 738p. But US investment bank JP Morgan yesterday initiated coverage of Diageo with a buy recommendation and a 12-month price target of 900p.

Retailer JJB Sports took pole position in the FTSE 250 yesterday, its shares rising 54 to 533½p.

The ascent came after the announcement that it may join up with Sports Division, the rival sports shop chain, creating a sports retail giant with around 500 stores.

It is not certain whether the deal will go through, but Richard Ratner, retail analyst at Butterfield Securities believes that the deal will materialise.

He expects JJB will pay about £300m for Sports Division, enhancing JJB's earnings per share by 10p this year and 17p next.

Three of the biggest falls in the FTSE 100 were suffered by stocks notable for their illiquidity. The biggest fall was by Schroders, which lost 130 to £16.05, while Misys shed 236 to £31.01 in very thin volume ahead of final results next week.

Stagecoach suffered following its results on Tuesday, despite generally positive broker comment. The shares, which have suffered volatility since entering the Footsie, moved into positive territory in early trading but selling in the afternoon saw it close down 83 at £12.47.

There was no sign of any real support for the banks, apart from Royal Bank of Scotland. Several brokers have turned cautious on the sector including Charterhouse Tilney which has now downgraded its recommendation on the sector from "overweight" to "neutral".

The broker cites the prospect of a hard landing for the UK economy and increasing pressure on net interest margins among the reasons for its move.

Banks suffer

Among individual stocks, the broker shifted its recommendation on Bank of Scotland from "buy" to "hold". Its shares fell 19 to 671p. Charterhouse is a seller of National Westminster, down 32 to £11.71 and Barclays which fell 36 to £18.30.

On a very poor day in the market, late buying of music publisher EMI made it the best performing stock among Footsie constituents. The shares hardened 5 to 517p. Analysts remain sceptical about recent rumours of a bid for the UK group.

African Lakes, the former plantation company in which George Soros has a stake, gained 6½ to 55p after it announced a new chief executive and a move to raise fresh equity.

FT 30 INDEX

	Jul 22	Jul 21	Jul 20	Jul 17	Jul 16	Yr ago	*High	*Low
FT 30	3895.2	3983.6	3984.0	3982.2	3982.9	3088.0	3984.0	3895.2
Ord. div. yield	2.80	2.74	2.72	2.73	2.75	3.55	4.22	2.72
P/E ratio net	23.92	24.48	24.62	24.58	24.42	18.22	25.41	15.80
P/E ratio nil	23.83	24.36	[illegible]	24.48	24.32	18.03	28.30	15.71

FT 30 since compilation: high 3920.1 11/08/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3953.6	3942.6	3948.8	3937.7	3937.7	3924.7	3930.1	3911.6	3983.6	3895.2

STOCK MARKET TRADING DATA

	Jul 22	Jul 21	Jul 20	Jul 17	Jul 16	Yr ago
SEAQ bargains	56,785	56,660	[illegible]	[illegible]	64,601	26,486
Equity turnover (£m)†	-	2369.2	[illegible]	2764.5	3849.5	1376.1
Equity bargains†	-	46,849	51,249	50,304	54,058	28,132
Shares traded (mI)†	-	769.5	823.4	854.8	[illegible]	498.9
Total market bargains‡	-	56,320	61,700	67,468	65,983	-
Total turnover (£m)‡	-	3364.5	3367.9	3989.7	5408.2	-
Total shrs traded (mI)‡	*834.2	769.3	782.1	901.7	1160.6	-
Tradepoint turnover (£m)	136.4	18.8	13.6	25.7	16.9	1.6
Tradepoint shrs traded(m)	19.0	5.9	3.5	8.4	8.1	4.8

†Excluding intra-market and overseas turnover [illegible] UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	341	Total Highs	35	Total contracts	35,030
Total Falls	1,295	Total Lows	56	Calls	19,889
Same	1,365			Puts	16,141

Jul 22 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	6194.0	6024.0	-163.0	6187.0	6012.0	27310	179262
Dec	6258.0	6121.0	-163.0	6258.0	6139.0	170	4001
Mar	-	6198.0	-182.0	-	-	0	870

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Sep	5750.0	5730.0	-48.0	5750.0	5740.0	95	5880

FTSE 100 INDEX OPTION (LIFFE) (*6025) £10 per full index point

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE GOLD MINES INDEX

	Jul 21	% chg on day	Jul 20	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (27)	1904.60	-1.8	1922.78	1282.87	1.87	-	1936.40	891.33
Regional Indices								
Africa (10)	1084.11	-2.1	1107.80	1488.53	4.32	41.59	1226.28	914.31
Australasia (7)	1215.86	+4.0	1168.12	1510.59	2.77	7.80	1600.85	833.88
North America (10)	952.54	-2.5	977.19	1332.06	0.71	84.85	1374.18	864.88

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 22	Day's chge%	Jul 21	Jul 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5989.6	-2.3	6132.7	6179.0	4874.5	2.74	2.31	2.03	22.49	89.10	2823.03
FTSE 250	5659.3	-0.8	5703.7	5709.2	4481.8	2.91	2.46	1.99	21.53	85.03	2433.56
FTSE 250 ex Inv Tr	5703.9	-0.7	5748.2	5748.8	4476.0	3.00	2.54	[illegible]	20.29	88.14	2462.37
FTSE 350	2885.4	-2.1	2946.9	2967.6	2338.2	2.77	2.34	2.02	22.31	40.66	2585.34
FTSE 350 ex Inv Tr	[illegible]	-2.1	[illegible]	2972.3	2338.9	2.79	2.35	2.03	22.06	40.90	1327.86
FTSE 350 Higher Yield	2811.8	-1.5	2853.3	2862.7	2268.1	3.75	3.18	1.92	17.38	51.82	2152.36
FTSE 350 Lower Yield	2970.0	[illegible]	3047.1	3073.9	2412.9	1.88	1.66	2.17	29.07	31.69	2158.52
FTSE SmallCap	2570.23	-0.7	2589.17	2591.96	2180.56	3.11	2.58	1.89	21.31	36.25	2241.80
FTSE SmallCap ex Inv Tr	2548.11	-0.6	2564.09	2565.26	2149.32	3.34	2.71	1.98	18.90	38.06	2245.41
FTSE All-Share	2811.16	-2.0	2867.61	2885.17	2282.57	2.79	2.35	2.01	22.25	39.54	2553.73
FTSE All-Share ex Inv Tr	2817.54	-2.0	2874.66	2892.35	[illegible]	2.81	2.37	2.05	21.98	39.89	1318.63

FTSE Actuaries Industry Sectors

	Jul 22	Day's chge%	Jul 21	Jul 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4382.94	-1.1	4429.90	4402.76	4705.20	3.47	3.00	1.72	20.95	74.43	2016.34
12 Extractive Industries(6)	[illegible]	-1.2	2863.40	2882.62	4171.94	4.92	4.83	2.06	12.33	76.82	893.24
15 Oil, Integrated(4)	4930.15	-1.9	4879.76	5056.19	4951.71	3.42	2.92	1.84	22.27	79.87	2232.86
16 Oil Exploration & Prod(12)	2946.79	-1.7	2996.79	3018.42	3788.14	1.93	1.80	1.88	32.89	33.41	1831.61
20 GEN INDUSTRIALS(290)	2186.79	-1.7	2143.17	2145.14	1867.53	3.44	[illegible]	2.28	15.98	34.98	1240.39
21 Construction(35)	1800.75	-1.3	[illegible]	1528.23	[illegible]	3.27	2.65	2.73	13.89	21.82	1348.54
22 Building Matls & Merchants	1704.41	-1.8	1735.19	1745.51	1763.85	4.31	3.76	2.00	14.48	38.26	982.80
23 Chemicals(23)	2565.42	-0.9	2589.41	2621.22	2466.52	3.85	3.28	1.78	19.24	48.37	1315.46
24 Diversified Industrials(7)	1361.51	-1.4	1380.77	1380.54	1319.21	4.26	3.95	2.11	13.95	28.73	840.42
25 Electronic & Elect Equip	2825.82	-1.2	2860.82	2846.84	3024.72	[illegible]	2.18	1.87	24.98	22.72	1557.78
26 Engineering	2742.33	-1.8	2793.16	2787.97	2467.00	3.46	3.07	2.48	14.53	49.55	1775.63
27 Engineering, Vehicles(10)	4019.49	-4.0	4185.19	4169.93	2749.72	2.22	2.09	3.34	16.84	62.80	2215.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 22 / Sch)

BELGIUM/LUXEMBOURG (Jul 22 / Frs.)

CZECH REP (Jul 22 / Korune)

DENMARK (Jul 22 / Kr)

FINLAND (Jul 22 / Mkk)

FRANCE (Jul 22 / Frs.)

GERMANY (Jul 22 / Dm.)

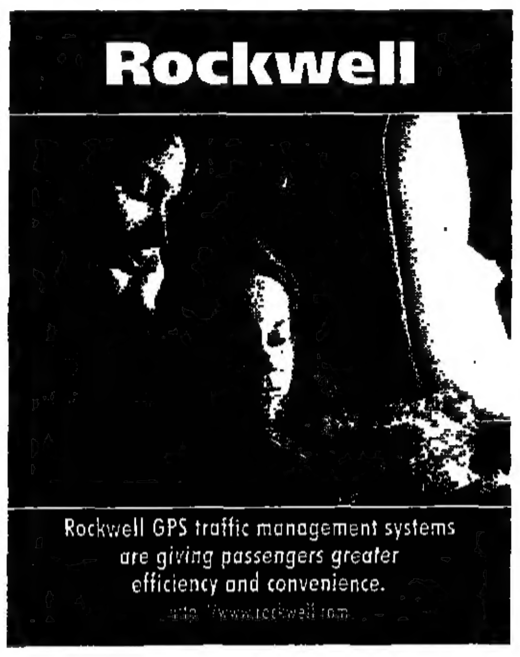
GREECE (Jul 22 / Drachma)

ITALY (Jul 22 / Lira)

NORWAY (Jul 22 / Kroner)

SWEDEN (Jul 22 / Kronor)

SWITZERLAND (Jul 22 / Frs.)



POLAND (Jul 22 / Zloty)

PORTUGAL (Jul 22 / Escudo)

SPAIN (Jul 22 / Pta.)

NETHERLANDS (Jul 22 / Fls.)

TURKEY (Jul 22 / TL Lira)

PACIFIC

JAPAN (Jul 22 / Yen)

HONG KONG (Jul 22 / H.K.$)

INDONESIA (Jul 22 / Rupiah)

MALAYSIA (Jul 22 / MYR)

NEW ZEALAND (Jul 22 / NZ $)

SINGAPORE (Jul 22 / S$)

AUSTRALIA (Jul 22 / Aus$)

SOUTH KOREA (Jul 22 / Won)

TAIWAN (Jul 22 / TW $)

THAILAND (Jul 22 / Baht)

AMERICAS

CANADA

TORONTO (Jul 22 / Can $)
4 pm close

MONTREAL (Jul 22 / Can $)
4 pm close

MEXICO (Jul 22 / Peso)
12:30 pm

AFRICA

SOUTH AFRICA (Jul 22 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JULY 21 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JULY 20 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	201.57	−0.4	181.43	178.55	187.33	213.70	0.0	3.76	202.37	181.97	177.74	187.12	213.79	240.60	173.27	232.43
Austria (22)	239.62	−0.3	215.67	212.25	222.69	222.53	0.2	1.52	240.33	216.10	211.08	222.21	222.06	253.73	181.60	198.78
Belgium (22)	396.57	−0.5	356.94	351.29	368.55	360.48	0.0	1.90	398.52	358.34	350.01	368.48	360.48	398.52	234.33	251.38
Brazil (26)	237.21	−0.8	213.51	210.12	220.45	506.75	−0.8	2.02	239.10	215.00	210.00	221.08	510.71	309.20	184.94	270.08
Canada (120)	231.74	−0.6	308.58	205.27	215.36	250.38	−0.3	1.62	233.19	209.68	204.80	215.61	251.05	248.78	199.10	216.50
Denmark (34)	529.86	−1.4	476.91	469.36	492.43	490.67	−0.9	1.32	537.33	483.16	471.93	496.83	495.19	537.33	375.32	403.87
Finland (28)	503.24	−0.4	452.96	445.78	467.69	573.90	0.1	1.60	505.28	454.34	443.78	467.19	573.19	505.28	267.59	300.63
France (79)	341.05	−1.2	306.97	302.10	316.95	320.58	−0.7	1.96	345.19	310.38	303.17	319.16	322.85	345.18	217.48	225.12
Germany (58)	322.67	−0.9	290.43	285.83	299.88	299.88	−0.4	1.11	325.61	292.78	285.98	301.07	301.07	325.61	204.89	226.55
Greece (37)	333.20	1.4	299.91	295.16	309.86	708.50	2.0	1.33	328.45	295.34	288.47	303.69	694.36	333.20	260.24	–
Hong Kong, China (66)	245.59	0.0	221.05	217.55	228.24	244.26	0.0	6.41	245.54	220.78	215.65	227.03	244.26	580.03	218.78	532.41
Indonesia (27)	32.99	0.2	29.69	29.22	30.66	284.34	−0.5	2.37	32.94	29.62	28.93	30.45	285.90	228.54	23.58	221.44
Ireland (16)	548.94	−1.0	494.09	486.26	510.16	550.02	−0.5	1.77	554.49	498.59	487.00	512.69	552.77	560.44	359.60	365.82
Italy (54)	181.97	−1.4	163.79	161.19	169.12	239.59	−0.9	1.23	184.49	165.89	162.03	170.58	241.87	184.49	95.46	103.67
Japan (480)	94.82	−0.9	85.34	83.99	88.12	83.99	−0.1	0.94	95.68	86.04	84.04	88.47	84.04	136.94	83.04	136.94
Malaysia (106)	114.71	−1.7	103.24	101.61	106.60	182.47	−1.3	3.45	116.68	104.92	102.48	107.88	184.92	479.63	107.51	471.88
Mexico (29)	1472.25	−1.1	1325.13	1304.13	1368.23	14180.49	−0.8	1.92	1488.32	1338.28	1307.18	1376.13	14301.13	1901.98	1278.19	1640.51
Netherlands (20)	555.94	−1.1	500.39	492.46	516.66	511.26	−0.7	1.83	562.38	505.69	493.93	519.99	514.59	562.38	385.56	411.62
New Zealand (14)	66.38	−1.3	59.75	58.80	61.69	67.01	−0.9	4.54	67.26	60.47	59.07	62.19	67.60	95.87	58.33	89.56
Norway (38)	315.23	−0.9	283.73	279.23	292.96	323.46	−0.2	1.93	318.04	285.97	279.33	294.06	323.96	374.64	281.62	317.11
Philippines (22)	71.84	0.2	64.66	63.64	66.76	150.01	0.5	1.14	71.72	64.49	62.99	66.31	149.22	153.54	57.54	149.49
Portugal (18)	292.35	−1.5	263.14	258.97	271.70	365.04	−1.0	0.89	296.74	266.83	260.62	274.37	369.58	299.39	261.25	–
Singapore (42)	150.61	−2.6	135.56	133.41	139.97	118.62	−2.0	2.54	154.58	139.00	135.76	142.93	121.06	390.51	133.81	385.39
South Africa (40)	221.90	−1.6	199.73	196.56	206.23	306.04	−0.9	2.94	225.42	202.70	197.98	208.43	308.92	361.55	213.50	358.02
Spain (31)	410.69	−1.7	369.66	363.80	381.68	471.97	−1.2	1.61	417.73	375.62	366.89	386.24	477.65	417.73	236.28	252.01
Sweden (49)	618.75	−1.5	556.92	548.09	575.03	728.65	−0.7	1.61	628.19	564.86	551.73	580.84	733.60	628.19	439.98	497.92
Switzerland (28)	437.47	−0.5	393.76	387.52	406.57	409.67	0.1	1.01	439.48	395.18	385.99	406.35	409.21	439.48	285.85	307.72
Thailand (38)	15.18	−4.7	13.66	13.44	14.10	24.11	−4.2	3.81	15.93	14.32	13.99	14.73	25.16	65.78	11.66	62.20
United Kingdom (203)	395.12	−0.8	355.64	350.00	367.20	355.64	−0.7	2.80	398.33	358.17	349.85	368.30	358.17	401.84	303.41	316.30
USA (626)	477.09	−1.6	429.42	422.61	443.39	477.09	−1.6	1.38	484.93	436.05	425.91	448.38	484.93	485.88	358.31	370.37
Americas (803)	429.47	−1.6	386.55	380.43	399.12	363.53	−1.6	1.38	436.30	392.31	383.19	403.41	369.25	437.03	326.79	338.51
Europe (737)	382.56	−0.9	344.34	338.86	355.53	362.62	−0.6	1.89	386.24	347.30	339.23	357.12	364.64	386.24	285.25	276.64
Eurobloc (348)	112.03	−1.1	113.32	117.99	112.55	112.58	−0.6	1.54	113.28	114.47	118.30	113.23	113.26	113.28	99.54	–
Nordic (149)	549.13	−1.2	494.26	486.43	510.34	562.86	−0.5	1.58	555.97	499.92	488.30	514.06	565.78	555.97	388.51	424.30
Pacific Basin (857)	100.67	−0.8	90.61	89.17	93.56	89.36	−0.1	1.68	101.51	91.28	89.16	93.86	89.45	154.68	88.45	154.43
Euro-Pacific (1604)	218.17	−0.9	196.37	193.25	202.75	192.53	−0.4	1.63	220.19	197.99	193.39	203.59	193.37	220.19	172.03	205.45
North America (748)	461.05	−1.6	414.98	408.40	428.48	461.72	−1.6	1.37	468.43	421.21	411.42	433.12	469.04	469.20	349.06	360.88
Europe Ex. UK (534)	362.58	−1.0	326.35	321.18	336.97	354.56	−0.5	1.47	366.32	329.39	321.73	338.70	356.28	366.32	236.79	249.01
Europe Ex. Eurobloc (389)	103.11	−0.8	104.30	108.60	103.59	104.47	−0.5	2.26	103.93	105.02	108.53	103.88	105.00	103.93	94.53	–
Europe Ex. UK Ex. Eurobloc (186)	108.39	−0.8	109.64	114.17	108.90	110.19	−0.1	1.23	109.21	110.36	114.05	109.16	110.31	109.21	95.86	–
Pacific Ex. Japan (387)	161.27	−0.5	145.15	142.85	149.87	167.25	−0.3	4.61	162.12	145.77	142.39	149.90	167.75	316.59	142.99	306.97
World Ex. Eurobloc (2099)	101.81	−1.3	91.63	90.16	94.62	103.12	−1.1	1.59	103.16	92.76	90.60	95.38	104.30	103.16	93.25	–
World Ex. US (1819)	219.88	−0.9	197.91	194.77	204.35	198.88	−0.4	1.83	221.91	199.53	194.90	205.18	199.75	221.91	175.30	209.06
World Ex. UK (2244)	294.05	−1.3	264.67	260.47	273.28	271.49	−1.1	1.45	298.02	267.97	261.74	275.55	274.48	298.02	234.24	255.11
World Ex. Japan (1967)	405.82	−1.3	365.26	359.48	377.14	400.56	−1.1	1.66	411.23	369.77	361.18	380.23	405.23	411.23	309.33	323.68
The World Index (2447)	302.65	−1.3	272.41	268.08	281.27	279.18	−1.1	1.59	306.56	275.66	269.25	283.45	282.13	306.56	241.30	260.38

Latest prices were unavailable for this edition. Market closed 21/7/98: Belgium

Emerging markets:

IFC investable indices

Dollar terms

Jul 21 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	1,011.90	−1.5	−9.3
Brazil	466.65	−0.8	−3.3
Chile	551.16	−1.5	−14.2
Colombia[1]	510.05	−0.1	−38.2
Mexico	631.82	−0.9	−19.9
Peru[2]	201.44	+0.7	−9.0
Venezuela[3]	465.17	+0.5	−46.9
East Asia			
China[4]	32.03	−0.7	−42.1
Korea[5]	31.87	−0.6	+32.8
Philippines	100.86	+0.2	−10.5
Taiwan, China[6]	125.14	−1.4	−11.3
South Asia			
India[7]	70.54	−0.7	−15.4
Indonesia[8]	15.77	+0.8	−53.1
Malaysia	63.32	−1.4	−30.5
Pakistan[9]	94.72	−2.0	−61.9
Sri Lanka[10]	84.82	−1.3	−27.1
Thailand	45.53	−4.4	−3.2
Europe/Mideast/Africa			
Czech Rep	60.07	+2.4	+9.8
Egypt	73.85	+2.8	−21.0
Greece	602.23	+1.3	+85.9
Hungary[11]	334.37		+6.2
Israel	125.34	+1.4	+3.0
Jordan	231.09	−0.7	+8.9
Morocco	163.66	−0.1	+25.8
Poland[12]	796.21	+0.5	+33.4
Portugal	328.26	−1.5	+55.5
Russia	70.19	−6.5	−52.8
S Africa[13]	156.81	−1.8	−12.8
Slovakia	60.98	−0.2	−38.5
Turkey[14]	280.77	−3.2	−10.0
Zimbabwe[15]	239.09	−0.9	−5.0
Regions			
Composite	220.44	−1.1	−10.4
Latin America	583.43	−0.8	−13.9
Asia	89.35	−1.1	−17.1
EMEA	145.70	−1.2	−1.3
Europe	199.15	−1.6	+5.6
Easte Europe	100.29	−2.6	−28.6
ME & Africa	65.47	−0.8	−8.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close July 22

NEW YORK STOCK EXCHANGE PRICES

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chg'e Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

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- N -

[illegible]

- O -

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- P - Q -

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- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
†-new yearly low. P/E price-earnings ratio. vol- volume. ‡-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‖ Trading suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jul 21	Jul 20	Jul 17	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9180.19	9295.75	9337.97	9337.97 (17/7)	7580.42 (9/1)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.46	105.18	105.35	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3435.36	3489.71	3485.56	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	288.24	288.95	291.89	295.40 (6/7)	262.68 (9/1)	295.40 (6/7/98)	16.53 (8/7/32)

DJ Ind. Day's High 9308.12 (9408.28) Low 9145.39 (9209.15) (Theoretical)♣
Day's high 9244.87 (9367.84) Low 9173.97 (9264.58) (Actual)♣

Standard and Poors	Jul 21	Jul 20	Jul 17	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1165.07	1184.10	1186.75	1186.75 (17/7)	927.69 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1359.92	1378.86	1380.57	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	142.17	146.22	147.04	147.89 (14/7)	110.65 (9/1)	147.89 (14/7/98)	7.13 (4/6/74)
Others							
NYSE Comp.	590.67	599.21	600.75	600.75 (17/7)	487.47 (9/1)	600.75 (17/7/98)	4.64 (28/4/42)
Amex Comp	733.96	738.64	736.23	763.67 (22/4)	648.41 (12/1)	763.67 (22/4/98)	324.20 (16/7/96)
NASDAQ Cmp	1979.14	2014.25	2008.76	2014.25 (20/7)	1503.22 (9/1)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	456.14	461.92	462.36	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Jul 17	Jul 10	Jul 3	Year ago
Dow Jones Ind. Div. Yield	1.57	1.61	1.58	1.64
	Jul 15	**Jul 8**	**Jul 1**	**Year ago**
S & P Ind. Div. yield	1.25	1.26	1.27	1.50
S & P Ind. P/E ratio	32.73	32.41	32.08	25.78

US DATA

MARKET ACTIVITY

● Volume (million)	Jul 21	Jul 20	Jul 17
NYSE	683.680	580.680	618.030
Amex	28.749	23.715	23.384
NASDAQ	859.375	727.781	807.738

NYSE	Jul 21	Jul 20	Jul 17
Issues Traded	3,522	3,504	3,501
Rises	900	1,226	1,391
Falls	2,083	1,722	1,528
Unchanged	539	556	581
New Highs	102	129	155
New Lows	115	80	84

NYSE TRADING ACTIVITY

Volume : 683,580,800

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
LucentTch	11,578,900	102⅝	+⅛
IBM	10,408,200	128⅛	+6⅞
Compaq	8,798,300	32¼	−1⅛
Merck	7,951,000	136⅝	−10
BayNtwks	7,835,300	35⅝	+⅜
Cendnt	7,695,100	17⅛	+½
AmOnLne	6,591,000	129⅝	−6⅜
NTele	5,388,800	61⅛	+1¾
PhMorr	4,838,200	40⅝	+⅛
Mtrola	4,884,300	52⅜	−1⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
ReynR A	16⅝	+1⅞	+11.4
Winnebago	12⅞	+1	+8.4
Safewy	46⅜	+2½	+5.7
Traneco	36	+1⅞	+5.3
Downs			
Hercel	19¼	−5⅛	−21.0
ThrmElct	23⅝	−4⅞	−17.4
Cal Pres	30½	−3⅞	−11.1
StJudeMed	30	−3¼	−9.8

NASDAQ TRADING ACTIVITY

Volume :859,375,000

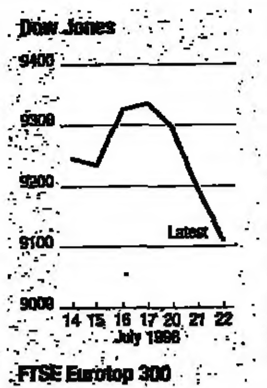
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellCmp	21,839,200	110⅝	−5⅛
Intel	19,976,600	81⅝	−⅜
Micsft	18,627,400	112⅜	−4⅛
WrldCm	13,078,900	56⅝	−⅜
CiscoSys	12,895,800	99⅜	−4⅞
Excite	12,469,300	48⅝	+1⅝
AppMat	9,857,900	31⅜	+1⅛
ParamT	9,149,800	13	−1⅜
Oracle	8,510,600	27⅝	+⅛
Amz.com	7,880,900	132⅛	−5⅛

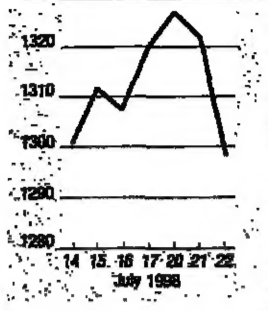
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Xircom	20⅝	+2⅜	+14.4
NetSys	48½	+4½	+10.2
Omnpnt	25	+2⅞	+8.3
ExcorpAmr	12	+1	+9.1
Downs			
Dexter Cp	17½	−4⅛	−19.5
XylanCp	25⅛	−6	−19.3
MMC Networ	26	−3¾	−12.6
CNET	62⅝	−8⅛	−11.6

Dow Jones



FTSE Eurotop 300



JAPAN

	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	16293.06	16555.69	(c)	17264.34	14664.44	38915.8	85.25

Day's high: 16480.69. Day's low: 16266.58.

TOKYO TRADING ACTIVITY

Volume : 396,000,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Sakura	11,734,000	327	−17
LgTmCr	10,826,000	49	−1
NpSn	7,578,000	254	−6
YasTrB	6,687,000	96	+4
SumiTrB	6,528,000	475	−20
FujiBk	6,098,000	667	−18
Mitrfny	5,843,000	535	−23
KawStl	5,537,000	253	−13
DaiwaBk	4,924,000	180	−2
Yuasa	4,383,000	378	+30

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
IshionS	513	+80	+18.5
Np Syn Chm	314	+31	+10.9
Enshu	304	+29	+10.5
Yuasa	378	+30	+8.6
Kansai Kisen	72	+5	+7.5
Kawai Music	325	+22	+7.3
Honen	270	+16	+6.3
Downs			
Soda Nikka	245	−30	−10.9

FRANCE

	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4220.12	4322.08	4368.91	4388.48	2862.54	4388.48	984.61

Day's high: 4336.30. Day's low: 4219.51.

PARIS TRADING ACTIVITY

Volume : 475,842,510

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
RhonPA	2,137,603	303.5	−14
FrTele	1,756,889	385.4	+7.9
Rhodia	1,185,379	165	−1
Usinor	1,018,618	87.9	−0.7
Axa	932,037	777	−33
Alcatel	708,236	1270	−60
Vivndi	689,255	1261	−49
Lgardr	614,861	274	+2.5
BNP	599,348	531	−27
Renault	593,846	345	−8

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Waeles	89	+8.45	+10.5
Cycnos	22	+2.0	+10.0
Saga	240	+20	+9.1
Sediver	180	+14	+8.4
Downs			
Fornier	665	−335	−33.5
Mtl Electron	656	−84	−11.4
Ecole Cons	195	−24.9	−11.3
Locafinan	310.1	−37.9	−10.9

GERMANY

	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	6110.73	6165.52	6171.43	6171.43	4087.28	6171.43	931.18

Day's high: 6189.11 Day's low: 6105.50

FRANKFURT TRADING ACTIVITY

Volume . n/a

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
IG Farben	3,285,506	3.4	+0.15
Bayer Hyp	1,100,600	109.65	+0.35
Daimler Benz	1,018,422	178.9	+4.7
Siemens	913,015	135.4	−3.2
Commerzbnk	906,042	72	−1.1
Bayer	739,670	87.35	−2.25
Dresdner Bk	732,061	113.4	+2.7
Deutsche Bk	686,309	156.5	−3
Veba	622,485	113	−2.6
Deutsche Tel	534,426	53	−1.85

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
KSM Mobel	18.05	+1.65	+10.1
Kali&S	264.85	+16.85	+6.8
Doag Hldg	145	+9	+6.6
Tauga	640	+30	+4.9
Downs			
Data Modul	95.5	−10.5	−9.9
Autania	11.5	−1.01	−8.1
Asa Col NV	203	−17	−7.7
Quante NV	490	−40	−7.5

UK

	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5989.6	6132.7	6179.0	6179.00	5068.60	6179	986.9

Day's high: 6132.7 Day's low 5988.6

LONDON TRADING ACTIVITY

Volume : 832,400,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Hartstone Gp	65,981,440	13¾	
Int Pub Rel	20,278,250	65	−1
Centrica	18,454,980	101¼	−2¾
Ryl Sun Allnce	16,130,670	674	+4
Br Telecom	12,888,710	826	−3½
Smithkline	11,422,480	718½	−26½
Norwich Un	11,272,420	433	−29
Tesco	11,206,430	192½	−4½
Shell T&T	10,794,580	411½	−4½
Lloyds TSB	10,261,720	871	−50

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Jacques Vert	23	+3½	+17.9
Stanford Rk	87½	+11½	+15.1
Fife Indmar	73½	+9½	+14.9
IS Solutions	342½	+32½	+10.5
Downs			
Peptide Therp	157½	−48	−23.7
Alumasc	145	−30	−17.1
Allied Text	99½	−17	−14.6
Stat-Plus	110	−16	−12.7

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1172.10	1172.80	–	1176.80	1168.60	113,683	346,882
Dec	1184.00	1188.20	+0.70	1188.20	1181.50	1,081	15,332
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Sep	16360.0	16210.0	−270.0	16420.0	16200.0	19,901	211,845
Dec	16320.0	16150.0	−150.0	16350.0	16150.0	78	18,125

Open interest figures for previous day.

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Jul	4292.0	4242.0	−89.0	4322.0	4240.0	61,555	158,673
Aug	4322.0	4254.0	−101.5	4322.0	4253.0	10,369	17,349
DAX							
Sep	6175.0	6115.0	−110.0	6222.0	6110.0	28,687	79,384
Dec	6234.0	6196.5	−80.5	6263.5	6196.5	50	2,443

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
OMX							
Jul	814.25	799.00	−17.00	815.50	797.50	34,455	48,636
Aug	818.00	803.75	−16.75	819.10	800.75	29,989	83,406
SOFFEX							
Jul	8406.0	8344.0	−65.0	8425.0	8317.0	5,158	21,143
Aug	8373.1	8369.0	−143.0	8373.1	8352.0	15	17,748

WORLD MARKETS AT A GLANCE

Country	Index	Jul 22	Jul 21	Jul 20	1998 High	1998 Low	☆ Yield	☆ P/E
Argentina	General	21324.27	21593.12	21881.60	23495.47 23/3	18237.40 2/1	3.1	18.2
Australia	All Ordinaries	2767.5	2787.9	2787.9	2861.40 16/4	2534.66 16/6	3.2	20.0
	All Mining	608.4	615.9	608.9	713.18 23/4	548.60 18/6		
Eased with bonds after benign inflation data tempered by government plans to sell only a further 16 per cent of Telstra.								
Austria	Credit Aktien	(u)	549.13	550.27	604.34 28/5	437.44 13/1	1.5	15.9
	ATX Index	1538.53	1532.47	1526.61	1628.56 25/5	1245.69 13/1		
Talk of strong demand for utility group Verbund from strategic investors provided support to market.								
Belgium	BEL20	3614.92	(c)	3632.07	3632.07 20/7	2357.78 10/1	1.5	24.6
Weak opening on Wall Street sparked selling by private investors looking to cash in recent profits.								
Brazil	Bovespa	10740.0	10923.0	11041.0	12298.00 15/4	9674.00 15/6	na	na
Canada	TSE 100♦	451.44	454.66	458.30	475.63 23/5	380.83 12/1	1.5	22.8
	Metals Mins♦	3379.83	3390.03	3402.08	4380.01 10/3	3326.52 15/6		
	Composite♦	7362.70	7408.40	7432.68	7622.39 22/4	6238.86 12/1		
	Portfolio§§	3750.25	3775.20†	3788.25	3965.81 25/5	3224.41 12/1		
Heavyweight banking sector marked down amid growing worries about outlook for higher interest rates.								
Chile	IGPA Gen¶	4183.76	4203.13	4248.05	4681.95 17/3	3698.35 7/7	3.0	13.8
China	Shanghai B	36.41	36.97	37.29	58.59 10/2	35.90 15/7	1.0	31.8
	Shenzhen B	73.56	74.27	74.08	98.97 10/2	72.59 15/7		
Zhejiang Power led Shanghai B shares lower amid fears it will report disappointing 1998 interim results.								
Colombia	IBB	1076.04	1076.04	1075.28	1431.48 7/1	1017.05 17/6	na	na
Czech Republic	PX 50	495.3	503.0	494.4	517.30 23/3	408.30 18/6	na	na
Technical correction pushed stocks lower while bonds dipped on favourable June trade data.								
Denmark	CopenhagenSE	783.24	783.24	787.51	778.84 7/4	592.88 12/1	1.3	24.4
Bio-tech blue-chip Novo Nordisk hit by poor results from US competitors.								
Egypt	Cairo SE Gen	360.42	355.42	352.65	393.18 21/4	348.40 2/2	na	na
Advance attributed to renewed buying by state owned insurance groups after government provided additional funds.								
Finland	HEX General	5381.60	5503.43	5500.35	5583.46 21/7	3228.43 12/1	1.8	18.5
Jitters in technology shares sparked profit-taking in bourse engine Nokia.								
France	SBF 250	2709.18	2764.51	2790.86	2769.73 17/7	1872.10 12/1	2.2	20.3
	CAC 40	4220.12	4322.08	4368.91	4388.48 17/7	2962.84 12/1		
Market sharply lower amid gloom over Fed chairman's testimony on US economy was compounded by losses on Wall Street.								
Germany	FAZ Aktien	1917.27	1934.95	1940.80	1940.80 20/7	1334.15 12/1	1.2	25.5
	Commerzbank	5684.10	5707.80	5712.60	5712.60 20/7	3806.20 12/1		
	DAX‡	6110.73	6165.52	6171.43	6171.43 20/7	4087.28 12/1		
Shares weak in in further response to Fed chairman Alan Greenspan's warnings about inflation and Asia.								
Greece	Athens SE	2803.85	2825.52	2770.91	2825.52 21/7	1380.13 29/1	1.5	22.1
	FTSE/ASE 20	1716.86	1727.13	1691.20	1727.13 21/7	765.18 29/1		
Investors called halt to five session record breaking streak as profits were taken in banks								
Hong Kong	Hang Seng	8420.72	8584.55	8483.25	11810.83 25/3	7462.50 15/6	4.8	8.6
	HSCC Red Chip	768.15	806.05	810.21	1776.08 27/2	768.15 22/7		
Broadly lower in line with weak global markets. Turnover remained thin at HK$5.54bn. Financials fell hard.								
Hungary	Bux	8222.16	8290.25	8234.74	9916.38 23/4	7069.35 28/5	na	na
Profit-taking pulled market lower after rises in each of seven previous sessions.								
India	BSE Sens.	3344.33	3353.30	3394.75	4280.96 21/4	3037.34 23/6		
	Crisil 500	539.22	541.28	546.87	615.82 21/4	576.17 23/6	na	na
Shares eased to lower in dull session.								
Indonesia	Jakarta Comp.	483.05	488.23	498.65	554.10 2/2	342.97 9/1	1.9	18.2
Telkom followed US-quoted ADRs lower; tobacco giant Sampoerna up against trend after flurry of strong first-half sales.								
Ireland	ISEQ Overall	5360.71	5422.21	5445.48	5471.81 21/4	4064.76 2/1	1.8	22.8
Bourse tumbled 3 per cent on worries over Greenspan and decline in US technology sector.								
Israel	Tel Aviv 100	318.26	318.06	313.01	337.43 8/6	263.12 11/2	na	na
Weak trend on world markets and worries over peace agreement with Palestinians sent market lower.								
Italy	BCI Comit 30	382.21	384.89	388.80	388.80 20/7	254.84 2/1	1.7	28.2
	Banca Com Ital	(u)	1622.85	1623.52	1654.36 7/4	1072.35 2/1		
	Mibtel General	25431.0	25746.0	25946.0	26377.00 6/4	17206.00 2/1		
Olivetti soared sharply higher after better than expected results from Omnitel mobile phone business.								
Japan	Nikkei 225	16293.06	16555.69	(c)	17264.34 2/3	14664.44 12/1	0.9	43.8
	Nikkei 300	248.69	253.44	(c)	257.43 10/2	234.65 12/1		
	Topix	1257.85	1277.17	(c)	1309.30 10/2	1120.61 12/1		
	2nd Section	1363.15	1369.16	(c)	1401.27 12/2	1173.76 14/1		
Depressed by Wall Street weakness and nervousness over outcome of Japan's imminent leadership election.								
Jordan	Amman SE	179.00	180.65	180.97	182.08 18/5	164.54 30/1	na	na
Sentiment was hit by worries over the health of King Hussein, who announced that doctors suspected he had cancer.								
Malaysia	KLSE Comp.	421.91	437.82	445.28	745.38 27/2	428.33 14/7	3.6	10.7
Broadly lower in thin turnover amid ongoing concerns of further corporate failures.								
Mexico	IPC	4521.78	4552.74	4602.69	5294.00 2/1	4049.58 15/6	1.4	10.6
Weakness in Asia and declines on Wall Street depressed shares.								
Morocco	CASA	823.75	822.50	820.40	839.13 22/6	698.57 21/1	na	na
Netherlands	CBS Tendency	1473.5	1484.5	1499.0	1499.00 20/7	1045.20 12/1	1.8	28.4
	CBS All Shr	834.0	840.3	845.1	845.10 20/7	589.30 12/1		
Philips leads blue chip gainers adding 1.2 per cent ahead of results announcement.								
New Zealand	Cap. 40	2128.39	2157.28	2168.34	2350.62 28/3	1942.31 22/6	4.5	19.9
Leaders broadly lower with global markets. Turnover was thin and small cap index declined.								
Nigeria	SE All-Share	(u)	5816.15	5803.34	6684.87 11/2	2226.40 12/1	na	na
Norway	Oslo SE Ind	2233.60	2241.48	2242.45	2378.88 4/5	1888.91 12/1	1.5	18.9
US inflation jitters and worries over first half corporate earnings depressed shares.								
Pakistan	Karachi SE	855.76	865.92	894.11	1746.31 2/1	765.73 14/7	na	na
Helped by news US had dropped its objection over IMF disbursing further loans to Pakistan.								
Peru	Lima Gen	1703.56	1716.31	1707.91	1803.91 4/5	1552.89 25/2	na	na
Philippines	Manila Comp	1711.75	1742.66	1734.45	2311.42 25/3	1518.00 8/1	1.5	13.2
Broadly lower with peso in response to weak yen and global markets.								
Poland	WIG	17218.3	17774.3	17594.8	18632.70 11/3	13228.80 12/1	1.3	14.1
Small cap stocks were hard hit with the leading seven falling around 10 per cent.								
Portugal	BVL 30	5789.69	5901.89	5956.94	6176.88 22/4	3978.27 2/1	1.7	34.1
	PSI 20	13216.44	13498.31	13578.50	14292.89 22/4	8031.84 2/1		
Followed other regional bourses lower. Mobile phone operator Telecel fell 4.5 per cent.								
Russia	RTS	(u)	183.95	193.02	411.81 5/1	134.81 8/7	na	na
Profit taking after recent rally depressed shares; market ignores Yeltsin's veto of oil excise cut.								
Singapore	SES All-S'pore	304.44	309.99	316.89	437.98 19/3	269.04 16/6	3.0	13.1
	Straits Times	1052.66	1062.52	1102.32	1698.75 19/3	1042.44 14/7		
Property sector underperformed, as did Creative Technology, Singapore Airlines foreign shares and City Developments.								
Slovakia	SAX	114.75	114.75	115.61	182.48 5/1	107.03 1/7	na	na
Unchanged on day with no trades recorded on bourse's main listed floor for second day in succession.								
South Africa	JSE All Share	7201.4¶	7285.0	7332.5	8358.70 20/4	5568.00 12/1		
	JSE Gold	1021.6¶	1054.4	1072.5	1152.70 8/7	672.80 18/3		
	JSE Ind.	8411.2¶	8485.5	8508.2	9842.70 20/4	6718.18 12/1	2.9	12.9
Market lower for third straight day with gold sector leading the way down.								
South Korea	KoreaCompEx**	362.07	364.76	365.18	574.35 2/3	289.09 16/6	1.4	17.1
Weakening yen and striking workers hurt sentiment, with shares easing in heavy turnover. Foreigners turned net sellers.								
Spain	Madrid SE	920.23	935.10	945.22	947.62 17/7	646.14 12/1	1.7	29.4
Investors said to be using Greenspan's comments as excuse to take profits after recent highs.								
Sri Lanka	CSE All Share	586.90	588.18	591.71	769.70 4/5	588.80 25/6	na	na
Easier in dull trading with foreigners largely absent and retail interest focused on plantation sector.								
Sweden	AffarsvrldnGen	3882.5	3944.2	3955.8	3955.80 20/7	2653.18 13/1	1.7	23.5
Telecoms group Ericsson lost 5 per cent as Wall Street opened lower and ahead of first half results due on Monday.								
Switzerland	SMI Index	8340.7	8412.0	8400.8	8412.00 21/7	6082.16 12/1	1.0	28.6
	SPI General	5195.83	5237.33	5237.39	5237.39 20/7	3381.38 12/1	na	na
Financials Zurich and CS Group outperformed with rises of more than 2 per cent.								
Taiwan	WeightedPr.**	7881.06	7949.20	8047.57	9277.09 2/3	7117.11 13/6	1.3	20.5
Financials lost 1.8 per cent, while electronics - which was down over 3 per cent at one point - lost just 0.3 per cent.								
Thailand	Bangkok SET	286.52	287.34	297.74	558.92 3/2	257.44 16/6	4.0	38.1
Banks tumbled 6.7 per cent after sector reported heavy interim losses.								
Turkey	IMKB Nat. 100	4364.71	4377.53	4477.96	4830.89 16/7	2777.06 10/2	2.5	20.7
Shares eased in thin and range bound trade due to lack of liquidity and concerns about early elections.								
Venezuela	IBC	5047.02	5121.62	5119.03	7889.92 23/3	4621.30 9/7	na	na
Zimbabwe	ZSE Industrial	(u)	(u)	(u)	8765.71 31/3	6868.30 12/5	na	na
Shares eased as investors conserved cash for two forthcoming new issues.								
WORLD	FT/S&P World(g)	(u)	302.65	308.56	365.62 17/7	242.98 9/1	na	na
	MS Capital Intl$	1114.9*	1127.7	1142.9	1143.80 20/7	886.58 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3561.79	3628.75	3670.82	3670.82 20/7	2574.51 12/1		
	DJ Euro Stx 50	3582.12	3640.86	3646.04	3658.49 17/7	2468.81 12/1		
	FTSE E300	1288.47	1321.95	1327.66	1327.66 20/7	871.87 12/1		
	FTSE E100	2986.93	3050.03	3066.91	3066.91 20/7	2226.40 12/1	na	na
	HSBC Dgn	(u)	(u)	191.45	273.81 28/3	188.85 12/1	na	na
	ING Bngs Emrg	132.86	134.59	136.10	180.08 22/4	120.85 18/6	na	na

** Sat Jul 18: Taiwan Weighted Price 8020.60; Korea Comp Ex 344.14. Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ XETRA-DAX after-hours index: Jul 22: 6081.11 −102.39. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation. ☆ Yields and P/E ratios are based on Datastream Total Market indices. § Midsession.

THE NASDAQ STOCK MARKET

4 pm close July 22

Stock	Div.	P/ E	Vol 100s	High	Low	Last	Chng
[illegible]							

THE NASDAQ STOCK MARKET

Stock	Div.	P/ E	Vol 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close July 22

Stock	Div.	P/ E	Vol 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

The EASDAQ All Share Index (EASI) for 22nd July: 1112.01 down 0.82% Day's high 1122.90 Day's low: 1110.18

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
4Front Technologies	US$10.875	-0.125	1705	11.5	11.25	Innogenetics	US$55.625	-0.125	25147	74	9.875
ActivCard	US$4.75		6720	6.375	2.25	Integr. Surg. Syst.♦	DEM8.4	-0.1	0	12.2	7.1
Algol♦	ITL42250		1370	44250	13250	Lernout & Hauspie	US$60.75	+0.125	139113	65.25	13.125
Artwork Systems	US$16.75	+0.375	17990	21.125	5.875	[illegible]	US$16.25	-0.875	54110	20.0625	7.375
Astronomy Corp.	US$3.9375		123000	4.1875	3.9375	Mercer Int'l♦	US$10	-0.125	0	12.625	8.125
Chemunex♦	FF16.5		9312	22.5	9.5	NTL	US$62	-0.875	0	63.75	20.5
City Bird Holding	US$7.875	-0.0625	65300	10.3125	6.875	Option Int'l	US$53	-1.75	58230	57.62	10.88
[illegible] Holdings	GBP1.9		11095	7.1	1.7	Orthovita, Inc.	US$11.375		20450	11.5	10.5
Dr Solomon's	US$41.875	-1.5	36502	44.25	23.75	Pankl Racing Syst	Sch4870	-3	212	5150	3700
EDAP TMS	US$4.375	+0.0625	0	9.125	4	Pharming	NLG33		100530	33.5	30.25
ESAT Telecom	US$41.5	-0.625	1500	43.75	13.5	PixTech♦	US$3.875		6506	7.625	2.125
Espace Prod. Int.	FF119.25		600	121.25	88.3	Royal Olympic	US$8.875	-0.25	0	18.5	8.625
Esprit Telecom	US$42.375	-4.25	5275	46.625	8.875	S&T Syst Integrat	Sch3773	-32	21115	4155	3550
[illegible] International	Sch621	-2	2380	690	580	Schoeller-Bleckmann♦	Sch1140	-10	38	1795	954
F.L.V. Fund	US$17.625	-2	257345	22.25	17	TelDaFax	DEM67.5	+3.75	4210	70.38	61
Global Graphics	FF225	+2	11519	325	190	Topcall Int'l♦	Sch4840	+380	17524	4840	622
Global TeleSystems	US$61.25	-1.125	125	62.375	25.75	Turbodyne Technol♦	US$12.53	-0.57	342121	13.1	2.1
Granger Telecom	US$18.875	-1.5	1170	27.25	14.688						
Gruppo Formula	ITL42050	+100	3530	65500	14250						

Prices for 22/7/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: http://www.easdaq.be EASDAQ offices are located in Brussels (Tel: 32-2 / 227 65 20) and in London (Tel: 44-171 / 489 5555). Annual/interim reports can be obtained for companies with a ♦ marked in this form. Annual Reports Club telephone: +44 181 770 0770. For further details please see Share Price pages.

STOCK MARKETS

Equities stumble on Greenspan comments

WORLD OVERVIEW

Jitters ahead of today's Bundesbank meeting hit markets already nervous over US inflation after Tuesday's comments by US Federal Reserve chairman Alan Greenspan, *writes Emiko Terazono.*

Investors in Europe, who had little time to digest Mr Greenspan's half-yearly Humphrey-Hawkins testimony on Tuesday, followed Asia and took profits. Paris, which was also shaken by a fuel tax-inspired dip in car stocks, lost over 2 per cent. Frankfurt declined by 1.7 per cent and Madrid lost 1.6 per cent.

Europe also suffered from position adjustments ahead of the Bundesbank meeting – the last one before the summer holidays. "The interest rate differential between Germany and Spain, especially after the release of strong German M3 data, is causing concern." said Jane Edwards, senior international economist at Lehman Brothers in London.

However, she pointed out that such worries were misplaced since the strength in the German M3 figure came from a rise in public borrowing rather than private economic activity.

In the US, Mr Greenspan told a House of Representatives banking panel that he was more worried about inflation risks in the US than the threat of a slowdown caused by Asian economic turmoil, repeating his testimony given to the Senate banking committee on Tuesday.

In the question and answer session, held after European bourses had closed, he said historical developments indicated that at some stage there would be significant correction of stock market values, although it was impossible to predict the timing.

Although a Fed tightening is unlikely to be imminent, given Mr Greenspan's comment's on inflation and lower productivity and growth, the stock markets' reaction has been correct, said Brian Fabbri, chief economist at Paribas in New York.

While the US yield curve has lost its forecasting power for the economy due to massive external capital inflows into the Treasury market and abundant domestic liquidity, equity investors should keep a close watch since this was expected to be corrected in the second half of the year, says Paribas in a separate report.

Although a flat yield curve has traditionally been a signal for an economic slowing, and a negative indicator for stocks; this did not seem to be the case. The currently flat yield curve is expected to correct as expectations of a Fed interest rate increase towards the end of the year heighten, Paribas says.

EMERGING MARKET FOCUS

Kenya struggles at four-year low

Dividend buying and general bargain-hunting helped bring a slight recovery to the Nairobi Stock Exchange yesterday after the market fell to a four-and-a-half year low early this week.

The International Monetary Fund's suspension of a key loan agreement, resulting in high interest rates, the attraction of alternative investments and the onset of recession have all contributed to the slide in the market over the past 12 months.

On Tuesday, the 20-share NSE index closed at 2,824.58, its lowest level since January 18 1994.

Yesterday's recovery, which saw the market improve 0.56 per cent to 2,847.78, was helped by dividend buying of Kenya Airways, and interest in stocks such as Kenya Breweries.

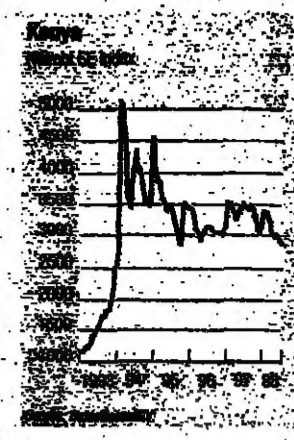
The market's latest woes began with last August's suspension of a $220m enhanced structural adjustment facility (ESAF) by the IMF. The organisation said it had acted because of poor governance and corruption. Last week, Robert Rubin, US treasury secretary, warned Kenya that corruption was undermining its economic reform programme.

The IMF's decision was a blow to a country already gripped by political instability ahead of last December's presidential election. Analysts say it pushed interest rates up sharply, putting the brakes on local and foreign investment.

One analyst said: "The government has been forced to issue both one and two-year bonds to raise money. At current interest rates, investors would rather put their money in bonds, where they can get a return of 25 per cent, than in equities."

Individual investors may also be prised away from equities with yesterday's launch of a one-year fixed rate bond yielding 16 per cent (without tax). "This is much more than any small

Kenya



depositor would get keeping their money in a deposit account so I can see a move away from equities," said one specialist on the market.

With the recession continuing, sentiment in the market has also been weakened by analysts downgrading earnings estimates ahead of next week's start of the results season.

The economic downturn is expected to hit consumer-related companies particularly hard although a bumper tea crop this year should boost earnings at companies such as Brooke Bond.

Political uncertainity has continued to overhang the market and investors in Kenya Commercial Bank, in which the government reduced its holding from 60 to 35 per cent earlier this year, will be watching Saturday's annual meeting for signs of continuing government interference in the appointment of new members of the board.

Fears of a strike among banking staff following the introduction of fringe benefit tax in last month's budget have also cast a shadow over that particular sector.

Analysts will also be watching to see if the government sticks to its refusal to pay the teachers a substantial pay increase agreed last year.

Joel Kibazo

Dow tumbles as rate cut hopes vanish

AMERICAS

US shares continued to fall back from their recent record highs in early trading as profit-taking and receding hopes of an interest rate cut took their toll, *writes Richard Waters in New York.*

Technology stocks, which had experienced the strongest rally, took the brunt of the sell-off, with the Nasdaq composite declining 1.2 per cent during the morning.

The Dow Jones Industrial Average also lost more than 1 per cent, with concerns about future earnings at a handful of companies setting the tone and hitting investor sentiment.

By early afternoon, the Dow was down 96.81 at 9,093.38, extending a decline that topped 100 points the day before. The Nasdaq composite was 23.1 lower at 1,956.04 and the Standard & Poor's 500 was off 6.37 at 1,158.68.

The biggest decline in the Dow came from Hewlett-Packard, which warned the day before of weaker earnings in the coming months. The company's shares fell $5⅞ or 9.5 per cent to 55\frac{11}{16}$, having already lost $3⅞ the day before.

Merck also extended the losses it suffered on an earnings warning, falling a further $5⅞ or 4.2 per cent to $123½.

DuPont became the latest company in the Dow to issue a warning about its prospects, and its stock fell 1\frac{11}{16}$ to 64\frac{11}{16}$.

The downdraft from the gathering concern about corporate profits centred on Computer Associates, a maker of business software. It warned of weakening sales that it blamed on the Asian economic collapse.

The company's shares tumbled $18⅝ or 32.5 per cent to $38⅝ as a number of Wall Street analysts savagely cut their earnings projections for the company.

Elsewhere in the technology sector, computer makers suffered the big losses. Dell Computer lost $3⅞ to 107½, while rival PC maker Gateway 2000 slid 2\frac{7}{16}$ to $60⅝. International Business Machines fell $2⅞ to 125\frac{7}{16}$.

The two biggest companies in the Nasdaq composite shrugged off the declines, however, with Microsoft up $1¼ to 113\frac{11}{16}$ and Intel climbing $⅞ to $82½.

TORONTO faced currency worries as well as weakness on Wall Street, and amid hardening talk of a rise for interest rates the heavyweight banking sector moved steeply lower.

As the Canadian dollar continued to track record lows against the US dollar, the local money markets tightened. "It looks as if the central bank will soon have to move upwards," said one broker.

Royal Bank of Canada shed 65 cents to C$89.25, Bank of Montreal C$1.10 to C$82.00 and Bank of Nova Scotia 70 cents to C$36.30. Largely as a result of this, the 300 composite index was off 38.43 at 7,371.00 at noon.

Among industrials, Northern Telecom shed C$1.70 to C$89.30 and BEC gave up 15 cents to C$65.30. Seagram lost 25 cents to C$59.05.

Golds stood out against the downturn, Barrick added 30 cents at C$27.55 and rival gold producer Placer Dome pushed ahead by 10 cents to C$16.70.

Paris leads bourses lower

EUROPE

Grappling with a budget as well as Wall Street wobbles, PARIS led the way down in Europe with the CAC 40 index sliding 2.4 per cent to end off 101.9 at 4,220.19, virtually its low for the session.

Sector sensitivity to the budget showed through in motors where news of an increase in diesel tax sent Renault and Peugeot smartly lower. The former shed FFr8 at FFr345 and Peugeot came off FFr49 at FFr1,248.

Financials turned in some of the day's heaviest declines. BNP came off FFr27 at FFr531, CCF FFr19 at FFr536 and Societe Generale FFr82 at FFr1,4141. Insurer Axa-UAP retreated FFr33 to FFr777.

Sanofi fell FFr27 to FFr701 in spite of a positive note from Goldman Sachs which warmed to the group's half-year results and reiterated its recommended list rating. The broker stood fast by a target price of FFr800.

Usinor came off 70 cents at FFr87.80 following a downgrade by Merrill Lynch which moved from buy to accumulate.

The odd patch of blue on the trading screens included France Telecom, up FFr7.90 at FFr385.40, and Canal Plus which added FFr20 at FFr1,170 after Lehman Brothers and a number of French brokers turned positive on the shares. Seita rose FFr10 to FFr276 after Morgan Stanley Dean Witter upgraded from outperform to strong buy.

FRANKFURT fell 1.7 per cent in further response to Fed chairman Alan Greenspan's warnings about inflation and Asia, and the Xetra Dax index registered a fall of 102.99 at 6,081.11.

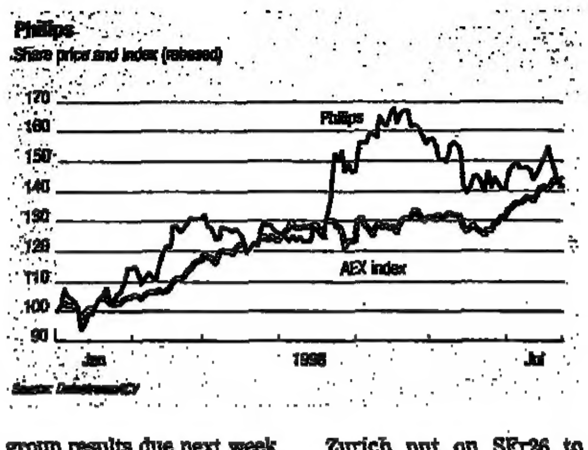
Among blue chips pulling the index lower, Siemens finished down DM2.80 at DM135.70, giving back some of Tuesday's strong rise.

SAP, which had provided some support early on with a rise of DM74, pulled back late in the day to close DM1 higher at DM1,227.

Against the trend, Daimler held on to a gain of DM4 at DM176.25 as news of better first-half commercial vehicle sales lifted hopes for

Philips

Share price and index (rebased)



Source: Datastream/ICV

group results due next week.

Bayerische Vereinsbank put on 60 pfg to DM175.50 as CS First Boston raised its rating on the Munich bank and set a price target of DM250 ahead of today's first-half results.

Deutsche Telekom fell DM3.15 to DM52 after losing a legal dispute with First Telecom of the UK.

AMSTERDAM kept in step with the downturn across Europe with the AEX index slipping 12.65 to 1,297.88. Philips did its best to supply some upside drive, rallying ahead of today's results, but the broad market was firmly on the defensive.

Philips rose to a session best of Fl 179.50 before settling at Fl 175.50, up Fl 2 or 1.1 per cent. Volume in the stock was relatively modest, however. PolyGram, a 75 per cent stake in which Philips is selling to Seagram of Canada, gained 60 cents to Fl 108.80 in spite of steeply lower second-quarter earnings.

Akzo Nobel, which BT Alex Brown removed from its top European 15 on Tuesday, lost Fl 4.10 to Fl 119 for a two-day decline of almost 6 per cent.

Aegon ran into profit-taking after the previous session's 3.8 per cent gain. The shares lost Fl 4.90 to Fl 218.50.

ZURICH pulled back from the peaks achieved earlier in the week as profit-taking took hold, although two financials, Zurich and CS Group, outperformed the market with gains of more than 2 per cent. The SMI index closed 71.3 lower at 8,340.7.

Zurich put on SFr26 to SFr1,184 in further response to a CS First Boston upgrade. Analysts said that a SFr10 rise in CS Group to SFr365 could indicate switching from the pharmaceuticals and chemicals sectors to financials. Another suggestion was that the demand represented buying to cover outstanding warrants.

Among the chemicals groups, Ciba lost SFr5.25 to SFr181.25 and Clariant SFr42 to SFr920 after Goldman Sachs downgraded the stocks.

Index heavyweights Roche and Novartis, which pushed the market to record highs on Monday and Tuesday, pulled back. Roche certificates fell SFr180 to SFr15,935 and Novartis gave up SFr34 to Sfr2,531.

Ares Serono, however, was an outperformer, advancing by SFr80 to SFr2,100.

MILAN closed weaker but off its lows as the market awaited July inflation data after the market closed amid hopes that the Bank of Italy could act to cut the discount rate. The real-time Mibtel index finished

Olivetti surged L249 to L3,616 after Tuesday's better-than-expected results from Omnitel, its mobile phone business.

MOSCOW extended losses in afternoon trade on profit-taking against the background of a growing war or words between the government and energy companies over the crisis package to stave off financial collapse.The RTS index fell 12.22 or 6.7 per cent to 171.73.

Oil stocks were hard hit after the energy majors, led by LUKoil, accused the government of surrendering to "irresponsible" pressure from the IMF to force through an austerity package which, they said, would aggravate economic and social strains in Russia.

Analysts said that an auction of government bonds earlier in the day did little to cheer the market in spite of hopes that a restructuring of short-term debt completed earlier this week would ease the pressure on the government debt market.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Peter Hall

São Paulo falls sharply

SAO PAULO picked up where it left off on Tuesday, moving steeply lower at the sight of heavy selling on Wall Street.

Telebrás came off 0.8 per cent at R$135.90 and Petrobrás 1.8 per cent to R$273. But the main upset among blue chips was provided by Eletrobrás, which tumbled dramatically in early trading, losing 5.7 per cent at R$38.30.

At midsession, the benchmark Bovespa index had added to the previous session's 1.7 per cent decline with a fall of 180 or 1.7 per cent at 10,743.

MEXICO CITY also fell sharply and at midsession the IPC index was off 38.53 at 4,514.21.

The second-quarter results from index bellwether Telmex were widely seen as positive but the telecoms giant failed to buck the downturn, retreating 15 centavos to 23.05 pesos.

Housebuilder Consorcio Ara lost 40 centavos to 28.60 pesos in spite of an upgrade from "hold" to "buy" on the shares from CS First Boston.

Johannesburg drops again

SOUTH AFRICA

Shares in Johannesburg moved lower for the third day running with the all-share index slipping 83.6 or 1.2 per cent to 7,201.4.

Golds led the way down with a decline of 32.8 or 3.1 per cent to 1,021.6. Financials lost 209.1 at 12,293.1 and industrials retreated 74.3 to 8,411.2.

Premier Group provided one of the day's biggest upsets, sliding 6.5 per cent or 10 cents to R1.44 on disappointing results.

Policy fears drag Tokyo down

ASIA PACIFIC

Concern that the next administration's economic policies would squeeze Japanese banks pulled TOKYO lower for the third straight day, *writes Alexandra Harney.*

The market soared nearly 4 per cent last week after Ryutaro Hashimoto resigned as prime minister, and hopes grew that the new administration would take on Japanese banks' credit problems.

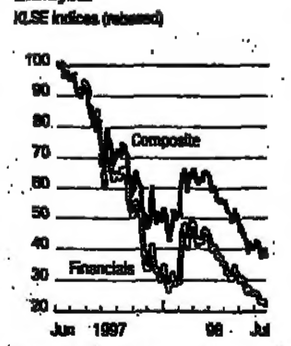
The Nikkei 225 average tumbled 1.6 per cent or 263.63 to 16,293.06, having traded between 16,286.56 and 16,460.69. Volume was up slightly, but still thin at 396m shares.

The Long Term Credit Bank, rumoured to be meeting difficulties in its merger talks with Sumitomo Trust, closed below its face value of Y50, losing Y1 to Y49. Sakura Bank was the most heavily traded share, finishing down Y17 to Y327.

Sumitomo Trust slipped Y20 to Y475, Fuji Bank lost Y18 to close at Y567, and the Bank of Tokyo Mitsubishi tumbled Y45 to Y1,495. The banking sector overall fell 2.7 per cent.

Malaysia

KLSE indices (rebased)



Source: Datastream/ICV

Blue chips, higher on foreign demand in recent weeks, also fell. Sony, which climbed to a record high of Y13,390 the previous day, slipped Y90 to Y13,300. NEC was down Y17 to Y1,343, and Honda lost Y110 to close at Y5,300.

Iron and steel shares were down 2.3 per cent. Nippon Steel, the world's largest steelmaker, slipped Y6 to Y254. Kawasaki Steel fell Y13 to Y253. Investors have favoured steel companies in recent weeks, partly because the industry is likely to be one of the first to benefit from public works spending expected under the next administration.

The Topix index of all first sector shares slid 19.32 or 1.5 per cent to 1,257.85. Decliners exceeded advancers 885 to 250, with 133 shares unchanged. In Osaka, the OSE tumbled 167.81 to close at 17,211.98.

KUALA LUMPUR was rattled by concerns about failures among large corporate groupings, and the composite index fell 15.91 or 3.6 per cent to 421.91. Prime Minister Mahathir Mohamad's comments that the government will revive stalled infrastructure projects, diverting capital flows from recapitalising companies, also unsettled investors.

The financial index fell 4.7 per cent as Malayan Bank fell 32 cents to M$3.38. Blue chips were also lower with MBf Holdings falling 11 cents to 18.5 cents and Tenaga Nasional 26 cents to M$4.06.

SYDNEY ended lower after a mixed, low volume session. Share stake sale worries hit News Corp after the estranged wife of Rupert Murdoch announced plans to file for divorce. The shares fell 22 cents to A$12.93. The All Ordinaries index gave up 20.4 at 2,767.5.

WELLINGTON fell 1.8 per cent in a market made nervous by the overnight shakeout on Wall Street. The 40 capital index came off 28.88 at 2,128.39. Carter Harvey Holt, which suffered a credit rating downgrade this week, shed 5 cents to NZ$2.10.

MANILA took fright at regional currency weakness – the yen showed signs of edging back to 141 to the dollar during a day of volatile trading – and the composite index finished off 30.90 or 1.8 per cent at 1,711.75. Volume rose to 910m shares from 715m on Tuesday. PLDT was the session's most active stock, falling 2 pesos to 935 pesos. PNBank shed 2 pesos to 51.50 pesos.

HONG KONG saw activity in HSBC in otherwise thin, sluggish trade and the Hang Seng index closed 143.88 or 1.7 per cent lower at 8,420.72. Turnover was little changed at a weak HK$3.5bn.

HSBC ran into profit-taking after Tuesday's HK$5 surge, losing HK$1 to HK$197.50 as speculation grew that Swiss investor Martin Ebner might raise his stake.